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PROPOSED NEGOTIATION OF A FREE TRADE AGREEMENT WITH MEXICO

HEARINGS

BEFORE THE

SUBCOMMITTEE ON TRADE

OF THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

ONE HUNDRED SECOND CONGRESS

FIRST SESSION

FEBRUARY 20, 21, AND 28, 1991

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PROPOSED NEGOTIATION OF A FREE TRADE AGREEMENT WITH MEXICO

WEDNESDAY, FEBRUARY 20, 1991

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON TRADE,
Washington, DC.

The subcommittee met, pursuant to call, at 9:45 a.m., in room 1100, Longworth House Office Building, Hon. Sam M. Gibbons (chairman of the subcommittee) presiding.

[The press releases announcing the hearings follow:]

FOR IMMEDIATE RELEASE
WEDNESDAY, JANUARY 30, 1991

PRESS RELEASE #1
SUBCOMMITTEE ON TRADE
COMMITTEE ON WAYS AND MEANS
1102 LONGWORTH HOUSE OFFICE BLDG.
WASHINGTON, D.C. 20515
TELEPHONE: (202) 225-1721

THE HONORABLE SAM M. GIBBONS (D., FLA.), CHAIRMAN, SUBCOMMITTEE ON TRADE, COMMITTEE ON WAYS AND MEANS, U.S. HOUSE OF REPRESENTATIVES, ANNOUNCES A HEARING ON THE PROPOSED NEGOTIATION OF A FREE TRADE AGREEMENT WITH MEXICO

The Honorable Sam M. Gibbons (D., Fla.), Chairman of the Subcommittee on Trade, Committee on Ways and Means, U.S. House of Representatives, today announced that the Subcommittee on Trade will hold a public hearing on the proposed negotiation of a free trade agreement with Mexico. The hearing will be held on Wednesday and Thursday, February 20 and 21, 1991, in the main Committee hearing room, 1100 Longworth House Office Building, beginning at 9:30 a.m.

In June 1990, President Bush and Mexican President Salinas endorsed the objective of a bilateral free trade agreement, and on August 21 President Salinas formally proposed initiation of negotiations for a free trade agreement between the United States and Mexico. On September 25, President Bush notified the House Committee on Ways and Means and the Senate Committee on Finance of trade negotiations with Mexico and of the Government of Canada's desire to participate in the negotiations. This notice pursuant to section 1102(c) of the Omnibus Trade and Competitiveness Act of 1988 triggered the period of 60 legislative days during which either Committee may disapprove of the negotiation of an agreement under the "fast track" Congressional procedures for considering implementing legislation.

The basic purpose of the hearing is to receive views and ideas from the interested public on the following issues:

-- the extent to which negotiations under the "fast track" procedures of the proposed free trade agreement are in the economic interest of the United States;

-- what should be the specific objectives, scope, and content of an agreement with Mexico;

-- what, if any, issues should be addressed during the negotiations with respect to U.S.-Canada trade, either bilaterally or as part of an integrated agreement for North America;

-- the anticipated impact and costs/benefits of an agreement overall and on specific U.S. industry, agriculture, labor, and other affected interests, including the possible effects on particular regional interests.

A study jointly requested by the Committee on Ways and Means and the Senate Committee on Finance by the U.S. International Trade Commission entitled "Likely Impact of a Free Trade Agreement with Mexico on the United States," due on February 1, will provide a factual analysis as background for the hearing. The Subcommittee will be interested in comments on the findings presented in this study.

The Subcommittee held hearings on June 14 and 28, 1990, on United States-Mexico economic relations generally (Serial 101-108). It is not necessary for witnesses who presented testimony or submitted written statements for the record at that time concerning a possible free trade agreement with Mexico to request to reappear at the hearings in February or to resubmit their statements for that hearing record unless they have new or additional views to present.

(MORE)

DETAILS FOR SUBMISSION OF REQUESTS TO BE HEARD:

Requests to be heard must be made by telephone to Harriett Lawler or Diane Kirkland [telephone (202) 225-1721] by close of business Tuesday, February 12, 1991. The telephone request should be followed by a formal written request to Robert J. Leonard, Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, room 1102 Longworth House Office Building, Washington, D.C. 20515. The Subcommittee staff will notify by telephone those scheduled to appear as soon as possible after the filing deadline. Any questions concerning a scheduled appearance should be directed to the Subcommittee office [(202) 225-3943].

In view of the limited time available to hear witnesses, the Subcommittee may not be able to accommodate all requests to be heard. Those persons and organizations not scheduled for an oral appearance are encouraged to submit written statements for the record of the hearing. All persons requesting to be heard, whether they are scheduled for oral testimony or not, will be notified as soon as possible after the filing deadline.

Witnesses scheduled to present oral testimony are requested to briefly summarize their written statements. The full statement will be included in the printed record.

In order to assure the most productive use of the limited amount of time available to question hearing witnesses, witnesses scheduled to appear before the Subcommittee are required to submit 150 copies of their prepared statement to the Subcommittee on Trade office, room 1136 Longworth House Office Building, at least 24 hours in advance of their scheduled appearance. Failure to do so may result in the witness being denied the opportunity to testify in person.

WRITTEN STATEMENTS IN LIEU OF PERSONAL APPEARANCE:

Any interested person or organization may file written comments for inclusion in the printed record of the hearing. Persons submitting written comments for the printed record should submit at least six (6) copies of their comments by the close of business Monday, February 25, 1991, to Robert J. Leonard, Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, room 1102 Longworth House Office Building, Washington, D.C. 20515. If those filing a written statement for the record of the printed hearing wish to have their statement distributed to the press and the written public at the hearing, they may provide 75 additional copies for this purpose to the Subcommittee office, room 1136 Longworth House Office Building, prior to the start of the public hearing.

FORMATTING REQUIREMENTS:

Each statement presented for printing to the Committee by a witness, any written statement or exhibit submitted for the printed record or any written comments in response to a request for written comments must conform to the guidelines listed below. Any statement or exhibit not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All statements and any accompanying exhibits for printing must be typed in single space on legal-size paper and may not exceed a total of 10 pages.

2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.

3. Statements must contain the name and capacity in which the witness will appear or, for written comments, the name and capacity of the person submitting the statement, as well as any clients or persons, or any organization for whom the witness appears or for whom the statement is submitted.

4. A supplemental sheet must accompany each statement listing the name, full address, a telephone number where the witness or the designated representative may be reached and a topical outline or summary of the comments and recommendations in the full statement. This supplemental sheet will not be included in the printed record.

The above restrictions and limitations apply only to material being submitted for printing. Statements and exhibits or supplementary material submitted solely for distribution to the Members, the press and the public during the course of a public hearing may be submitted in other forms.

* * * * * * * * * * *

FOR IMMEDIATE RELEASE
FRIDAY, FEBRUARY 15, 1991

SUBCOMMITTEE ON TRADE #2
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
1102 LONGWORTH HOUSE OFFICE BLDG.
WASHINGTON, D.C. 20515
TELEPHONE: (202) 225-1721

THE HONORABLE SAM M. GIBBONS (D., FLA.), CHAIRMAN, SUBCOMMITTEE ON TRADE, COMMITTEE ON WAYS AND MEANS, U.S. HOUSE OF REPRESENTATIVES, ANNOUNCES A THIRD DAY OF PUBLIC HEARINGS ON THE PROPOSED NEGOTIATION OF A FREE TRADE AGREEMENT WITH MEXICO

The Honorable Sam M. Gibbons (D., Fla.), Chairman of the Subcommittee on Trade, Committee on Ways and Means, U.S. House of Representatives, today announced that the Subcommittee on Trade will hold a third day of public hearings on the proposed negotiation of a free trade agreement with Mexico. The hearing will be held on Thursday, February 28, 1991, in the main Committee hearing room, 1100 Longworth House Office Building, beginning at 9:30 a.m.

This hearing is a continuation of the Subcommittee's hearings scheduled to be held on Wednesday and Thursday, February 20 and 21, 1991. (See Subcommittee press release #1 dated January 30, 1991.) The witness list will consist of private sector witnesses who previously submitted requests to testify. The Subcommittee is not accepting additional requests to appear at the hearings.

* * * * * * * *

Chairman GIBBONS. If all in the room will take their seats as quickly as possible, we will begin.

First, I want to thank all the members of the committee and this large audience we have today for attending this hearing. This is a very important hearing for the United States. Today, the Subcommittee on Trade begins 3 days of hearings on the proposed negotiation of a free trade agreement with Mexico.

Last September 25, the President notified the House Committee on Ways and Means and the Senate Committee on Finance of his intention to negotiate a bilateral free trade arrangement with Mexico.

On February 5, the President sent the committee a notice that Canada will participate in these negotiations. In a joint communique, Presidents Bush and Salinas, and Prime Minister Mulroney agreed that the trade ministers of the three countries should proceed as soon as possible with trilateral negotiations aimed at a comprehensive North American Trade Agreement.

The notice last September triggered a 60-day legislative period in which either committee of the House or the Senate may disapprove the negotiation of the trade agreement proceeding with Mexico under the so-called fast-track congressional implementation procedures.

That period expires at the end of February—this February. Since the fast-track authority, itself, expires June 1, we anticipate a request from the President by March 1 to extend that authority for 2 years. The purpose of these hearings is to receive as broad a representative view of private sector interests as is possible on this North American Free Trade Agreement.

We are interested in knowing which interests favor or oppose negotiations and why? What issues should or should not be addressed in the negotiations with Mexico and Canada? What is the likely impact of an agreement on various segments of our economy? And how much any potential adverse effect might be addressed?

As a strong believer in the benefits of free trade, I support these negotiations and welcome the decision of Canada's participation in the creation of a comprehensive North American Free Trade Agreement. At the same time, I am concerned about the potential consequences of an agreement between countries with vastly disparate levels of economic development—wages and working conditions and environmental standards.

These issues need to be addressed in some way within the context of these negotiations. The agreement must also provide sufficient transition, safeguard, and other adjustment measures to minimize adverse effects upon particular industries and groups of workers.

This member, the committee, and the Congress will ultimately judge an agreement and either oppose it or support it on the basis of whether it is in the economic interest of the United States; whether it promotes fair as well as free trade; and whether it benefits American producers and workers.

And now, I know other members have opening statements that they would like to make. Let me proceed first with Mr. Crane and then we'll go back and forth, first taking members of the subcom-

mittee and then any members of the full committee that might want to speak.

Mr. Crane.

Mr. CRANE. Thank you, Mr. Chairman.

I join you in welcoming the witnesses today, particularly Ambassador Hills, with whom we have much to discuss about the prospects and problems associated with the proposed negotiations on a free trade area with Mexico.

I also look forward to hearing the testimony from my colleagues in the House, and from representatives from the private sector on this important issue.

I want to commend President Bush and Ambassador Hills for embarking on what I believe will be a momentous task. If successful, the future trade regime will invigorate the economies of all countries involved and will provide ever expanding opportunities for American businesses and American workers. Furthermore, we should not underestimate the importance of being responsive to overtures from the new, progressive Mexican Government with respect to these negotiations, recognizing the emergence of Mexico as a competitive trading nation, and knowing that as partners we can achieve so much more.

With the dramatic changes taking place in Eastern Europe, and with the economic integration of Western Europe under the 1992 program, the world economy looks very different than it did just a few years ago. Although more subtle, the economic changes in our own hemisphere are equally historic, and are likely to provide much more fertile ground in which to cultivate the trading opportunities of the future.

As prospects for a successful conclusion to the lengthy Uruguay round negotiations appear dim, it is appropriate that we redouble our efforts to reduce trade barriers with our closest neighbors. I welcome the inclusion of Canada, our other close neighbor to the table, to support the goal of creating a North American free trade arrangement. Together our three countries can provide a free enterprise model that will be the envy of the world and that will enhance the economic opportunities and the standard of living for citizens throughout the hemisphere.

We have many problems ahead as we define our negotiating objectives, identify the needs and concerns of U.S. industry and workers, and determine the best mechanism for implementing the results. It is clear that a commitment to free enterprise and economic reform has taken root in Mexico. I believe the commitment is irreversible. These negotiations give us an opportunity to embrace and support these new initiatives and to draft an agreement that will meet the challenges of three dynamic economies in the next decade.

Thank you, very much, Mr. Chairman.

Chairman GIBBONS. Do I have any members on my right?

Mr. GUARINI. Yes, Mr. Chairman, I want to commend you for holding these hearings early because I think it is very important that we develop an informed judgment regarding the advisability of the free trade agreement with Mexico.

I am particularly aware of the fact that there are many potential benefits, especially in the long-term, if we are able to work out

some of the very knotty problems that we do have. We are very concerned about health and safety and environmental issues, and certainly the job loss that might go to Mexico.

But I would also like to point out that we are also concerned about the narcotics and drug issue and we are concerned about immigration. I know that that may not be on the table at this time, nonetheless, I think these are issues that are very important—political and social and economic issues—that we have to deal with sooner or later. I think the time has come that we put this as far up on the front burner as possible.

Mexico has reduced its trade barriers and its nontariff barriers, and I think that is all for the good, and we have benefited from it. I think that we have a greater GNP, a larger population than we have between our three countries and the Common Market. And our vision of the future, if we are to clarify it, should include some kind of a long-range agreement with Mexico.

I have a prepared statement that I would like to put into the record.

Chairman GIBBONS. Certainly, without objection, we will include your statement in the record.

[The prepared statement follows:]

STATEMENT OF REPRESENTATIVE FRANK J. GUARINI ON PROPOSED NEGOTIATIONS OF A FREE TRADE AGREEMENT WITH MEXICO

Mr. Chairman, I commend you for holding these hearings so early in the legislative year. There is certainly much work to be done if we are to develop an informed judgment regarding the advisability of a free trade agreement with Mexico.

I agree with the administration that an FTA with Mexico offers many potential benefits, especially in the long term. There are also many potential problems that must be addressed.

Already the United States is benefiting from greatly reduced tariff barriers in Mexico. Nontariff barriers have also been lessened. A free trade agreement could solidify these gains.

On the other hand, because trade barriers have already been reduced, we cannot expect an immediate upsurge in trade as a result of an FTA.

We need to develop more fully the rationale for an FTA and the gains which will inure to the United States if we enter into such an agreement. These are not obvious, as the ITC's February, 1991 report on "The Likely Impact on the United States of a Free Trade Agreement with Mexico" makes clear.

For most U.S. industries, the potential benefits are negligible, at best. To the extent that an FTA improves the investment climate in Mexico, we have the potential for more export of U.S. jobs. Indeed, the ITC report observes that the more successful FTAs tend to be among countries that are at comparable levels of development.

The ITC report also predicts that an FTA will lead to a slight decline in the real income of unskilled U.S. workers. It is my understanding that over 70 percent of the U.S. labor force falls within this definition of "unskilled." Not only is this disturbing, but so great is the wage differential between U.S. and Mexican workers that we must also be concerned about the effect of an FTA on the incomes of skilled workers as well. The ITC report also downplays the effects of increased U.S. investment in Mexico as it relates to job loss in the United States.

I do not mean to suggest that these problems will result in insuperable obstacles to an agreement. To the extent that an FTA causes problems in the United States, we ought to consider the appropriateness of increased adjustment assistance or a more gradual transition to such an agreement. However such an agreement is structured, we must be as certain as we can be that the gains from such an FTA with Mexico outweigh the potential losses.

We also need to be concerned about the effect of an FTA on trade with other countries, including Canada and the Caribbean. Displacement will surely occur, but how much? For example, how will a Mexico FTA affect the gains that have been made under the Caribbean Basin Initiative?

Other factors that need to be addressed include worker health and safety, environmental issues and the narcotics trade. We are here to learn and listen. A free trade agreement with Mexico can be a great blessing for us all. But only if we address the many legitimate concerns that have been raised regarding this matter.

Chairman GIBBONS. Mr. Schulze.

Mr. SCHULZE. Thank you, Mr. Chairman.

I commend you for initiating hearings regarding the United States-Mexico Free Trade Agreement. As I stated in the past, I support the general notion of a free-trade agreement with Mexico. My only regret is that we didn't begin negotiations sooner.

In forging ahead with EC 1992 as early as it did, the European Community gained enormous leverage vis-a-vis the Uruguay round negotiations. Accordingly, I am deeply concerned that if a GATT agreement is reached it will bear much closer resemblance to the EC position than to ours.

If the United States, Mexico, and Canada had brought to fruition a North American free trade area before the Uruguary round got into the critical 11th hour phase, perhaps our foot would be on the EC's throat instead of the other way around. To the credit of President Salinas, and Mexico, since becoming a member of GATT in 1986, Mexico has reduced barriers to goods, services, and investments. However, much more could be done, and in order for this member of the Ways and Means Committee to support the final agreement, much more will have to be done.

Mexico still has an average applied tariff of about 10 percent or about 150 percent higher than the average United States tariff of 4 percent. With respect to the United States-Canada FTA, we erred by not demanding parity in average United States and Canadian tariffs before allowing the tariff phaseout schedules to be triggered. We must not make the same costly mistake a second time.

As a long-standing supporter of our trade laws, I'm especially concerned that a United States-Mexico FTA will only further enhance the dumpers of the world to divert dumped products through Mexico, and into the United States, and in the process to circumvent antidumping duties. Clearly, this would have a deleterious and devastating impact on a range of U.S. industries from semiconductors to color picture tubes in television.

At the same time, from Mexico's standpoint, being used as a staging ground for diversionary dumping practices would mean more screwdriver type assembly plants in Mexico and more jobs for Mexicans. Therefore, pending the fate of the United States GATT proposals to combat diversionary dumping and duty circumvention, I cannot support any United States-Mexico FTA that does not provide adequate safeguards in these areas.

In another critical area, that of intellectual property protection, Mexico must take concrete action even before FTA negotiations begin. It had an opportunity to enact a new industrial property law late in 1990, but failed to do so. If Mexico wants us to believe its stated commitment to providing intellectual property protection, it will pass a meaningful law as soon as the Mexican Congress reconvenes in April. Also, Mexico should join the United States in pursuing a global patent harmonization agreement to ensure that nations can no longer use their patent application process as a way of denying market access to foreign firms.

So, Mr. Chairman, let me reiterate what I said during last June's subcommittee hearing on United States-Mexico trade relations. Mexico must understand that this is not a Caribbean Basin Initiative-type of give-away program. Mexico must be fully prepared to give and not simply take. Mexico will be expected to deal and to deal seriously.

And while I have said at this early stage that I support a United States-Mexico FTA, I cannot stress enough that my support is not unconditional. I think most of the members of the subcommittee feel the same way.

My responsibility as a member of this committee is to do what is best for America and to prevent these negotiations from becoming a one-way street. I commend you for holding the hearings and look forward to the testimony of our witnesses.

Chairman GIBBONS. Thank you, Mr. Schulze.

Mr. Thomas.

Mr. THOMAS. Thank you, Mr. Chairman.

I, too, appreciate the early hearings on what, for my constituents, is a very significant question and that is whether or not we are going to have a free trade area with Mexico. Because not only do Mexican produce sales directly compete with California products, the prospect of free trade with Chile and others in the hemisphere threatens them with more import penetration in the future.

How an agreement will address the disparities in our economy and others in Central and South America will be the primary factor on which I will decide my position on any agreement.

The International Trade Commission's recent report on the effective United States-Mexican free trade area shows United States horticulture will experience production and employment losses if any agreement goes through without reasonable phasein procedures, and even then, there are serious dislocations that will occur.

The situation is clear. Food processors are already relocating to Mexico. A free trade area would encourage more processors and fresh product growers to relocate as well. Essentially, American family farmers will be pressed to compete because our Government will not tolerate payment of lower wages and because U.S. labor organizations have opposed making labor mobility part of these talks.

In the face of the nominal economic gains a free trade area appears to provide for the United States, many of my constituents question the need for an agreement. Liberalization of Mexico's economy is likely to give United States business many of the advantages of a free trade area. Having invested family capital and years of labor in building farm businesses and national markets, they find it hard to see why a free trade area is in any way needed. I share their concerns.

I like the concept of free trade, but continual reliance on concessions from U.S. horticulture in trade initiatives raises questions of equity in my district. At the minimum, any such agreement should contain the following protection for growers to preserve some of the balance.

First, United States quality standards should be met by any Mexican produce entering the country. American growers spend a great deal on consumer education and marketing. Marketing order

quality standards assure uniform product critical to repeat sales. All Mexican producers have to meet these standards and much of Mexico's produce already does. There is no reason to eliminate them.

Second, a long transition period should be provided for import-sensitive horticultural products. Some growers urge as much as 25 years be given, so they can adjust. Given the enormous wage differential, such a long transition may be appropriate.

Third, U.S. scientifically based health and FDA sanitary standards should be nonnegotiable. I am very disturbed, for example, by reports that Mexico's representatives think our exclusion of Mexican avocadoes is for political reasons. That is untrue. Mexico has a seed-weevil problem it has been unable to resolve. There is no reason to give this plant pest any other access to American farms.

Fourth, there should be complete Mexican compliance with environmental standards regarding such matters as pesticide use and residue standards. U.S. farmers are compelled to use expensive products our Government considers to be acceptable. To the degree that Mexican farms are permitted to use cheaper products, particularly those banned in the United States, American farmers will clearly be at a disadvantage.

Fifth, we need strong rules of origin and controls against transshipment. The hemisphere's cotton industry illustrates the problem we could face. Unless strong controls are in place, it would be very easy for cotton from Nicaragua, El Salvador, or Guatemala to enter the United States represented as Mexican cotton. Such transshipment would clearly undermine a free trade area.

Finally, I would strongly urge that migratory farm labor systems be put on the table during the talks. Farmers in this country have the skill and capital investment to compete. What they will increasingly lack is access to labor supplies. The 1986 immigration reform legislation will only make it harder to get a labor force in the future. Fair is fair. If other parts of the country want California and other Sun Belt farmers to live under a free trade agreement and to make sacrifices, they have got to do something to balance the playing field.

Having not made a decision about a free trade area I am going to carefully examine the materials presented in these hearings. U.S. horticulture will be asked to make major sacrifices and perhaps be the only major segment that will suffer if a free trade area is negotiated. If they are forced to do that, ensuring a fair playing field for them, I think is essential and will be essential for this member.

Thank you, very much, Mr. Chairman.

[The prepared statement follows:]

STATEMENT OF THE HON. BILL THOMAS, SUBCOMMITTEE ON TRADE

Mr. Chairman, I am looking foward to the testimony the Subcommittee will receive on the proposed U.S.-Mexico free trade area. This is a very significant proposal for my farm constituents: not only do Mexican produce sales directly compete with California products, the prospect of free trade with Chile and others in the hemisphere threatens them with more import penetration in the future. How an agreement will address the disparities between our economy and others in Central and South America will be the primary factor on which I will decide my position on any agreement.

The International Trade Commission's recent report on the effect of a U.S.-Mexico free trade area shows U.S. horticulture will experience production and employment losses if any agreement goes through. While some horticultural producers will gain export opportunities if Mexico reforms its import licensing, California and Florida producers of avocadoes, tomatoes and other fruits and vegetables will clearly come under increased pressure.

The situation is clear. For labor-intensive products, Mexico's low wage rates give Mexican producers an advantage. The U.S. hourly minimum wage is as great or greater than what some Mexican labor earns in a day. Food processors are already relocating to Mexico. A free trade area would encourage more processors and fresh product growers to relocate as well. Essentially, American family farmers will be pressed to compete because our government will not tolerate payment of lower wages and because U.S. labor organizations have opposed making labor mobility part of these talks.

In the face of the nominal economic gains a free trade area appears to provide for the U.S., many of my constituents question the need for an agreement. Liberalization of Mexico's economy is likely to give U.S. business many of the advantages of a free trade area. Having invested family capital and years of labor in building farm businesses and national markets, they find it hard to see why a free trade area is in any way needed. I share their concerns. I like the concept of free trade, but continual reliance on concessions from U.S. horticulture in trade initiatives raises questions of equity here at home.

At a minimum, any such agreement should contain the following protection for growers to preserve some of the balance.

First, U.S. quality standards should be met by any Mexican produce entering the country. American growers spend a great deal on consumer education and marketing. Marketing order quality standards assure uniform product, critical to repeat sales. All American producers have to meet these standards and much of Mexico's produce already does. This is no reason to eliminate them.

Second, a long transition period should be provided for import-sensitive horticultural crops and other products. Some growers urge as much as 25 years be given so they can adjust. Given the enormous wage differential, such a long-transition is appropriate.

Third, U.S. scientifically-based health and phytosanitary standards should be nonnegotiable. I am very disturbed, for example, by reports that Mexico's representatives think our exclusion of Mexican avocadoes is a political move. That is untrue. Mexico has a seed weevil problem it has been unable to resolve. There is no reason to give this plant pest or any other access to American farms.

Fourth, there should be complete Mexican compliance with environmental standards regarding such matters as pesticide use and residue standards. U.S. farmers are compelled to use expensive products our government considers to be acceptable. To the degree Mexican farmers are permitted to use cheaper products, particularly those banned here in the United States, American farmers will be at a disadvantage.

Fifth, we need strong rules of origin and controls against transshipment. The hemisphere's cotton industry illustrates the problem we could face. Unless strong controls are in place, it could be possible for cotton from Nicaragua, El Salvador or Guatemala to enter the U.S. represented as Mexican cotton. Such transshipment would clearly undermine a free trade area.

Finally, I would strongly urge that migratory farm labor systems be put on the table during talks. Farmers in this country have the skill and capital investment to compete. What they will increasingly lack is access to labor supplies. The 1986 immigration reform legislation will only make it harder to get a labor force in the future. Fair's fair: if other parts of the country want California and other "sun belt" farmers to live under a free trade agreement, they ought to do something to balance the playing field.

Having not made a decision about such a free trade area, I am going to carefully examine the materials presented in these hearings. U.S. horticulture will be asked to make major sacrifices if a free trade area is negotiated. If they are forced to do that, insuring a fair playing field for them is essential.

Chairman GIBBONS. Thank you.

Are there any other statements?

Mr. Rangel.

Mr. RANGEL. Mr. Chairman, let me ask unanimous consent to put my written statement in the record.

Chairman GIBBONS. Certainly, without objection, it is so ordered.

Mr. RANGEL. I would like to join with the other members in commending you for having arranged for this impressive list of witnesses. Let me point out, that as chairman of the Select Narcotics Committee, I don't see how we can ignore the question of narcotics. Certainly this issue, the trade issue, is important not only to our Nation, and Mexico, and Canada, but the entire hemisphere and hopefully the world. Recognizing the importance that President Bush has placed on the narcotic question, I don't see how we can not have it on the table.

Recently, our committee had the opportunity to meet with President Salinas, and his Cabinet, including his able free trade agreement negotiator, Dr. Hermino Blanco. And while they are very reluctant to have this issue linked with free trade, there is no question that if we are going to talk about social and economic relationships that this issue is not going to go away, nor should it.

Recently, I was briefed by the Mexican Ambassador to the United States, along with President Salinas' outstanding law enforcement officials. They placed on the table an exciting new initiative as it relates to Mexico's concern about the ever increasing trafficking of cocaine as well as opium through our borders.

At the proper point, I would hope that our able Ambassador—I'd like to pause and say that I don't think we have a more able person to negotiate on behalf of the United States and the free world than Ambassador Hills—but at the proper point, I do hope that she might share with us her opinion of this new initiative and also if there is any reason why this issue should not be elevated to the same standard of importance that President Bush constantly refers to it, this member and the committee members would like to know. This is not holding any agreement in hostage. We're dealing with friends, and we're dealing with lovers of democracy and those that want to make certain that we have a healthy and free environment.

To me, we cannot do this, if we just keep narcotics in the closet.

I want to thank you, Mr. Chairman.

[The opening statement follows:]

Opening Statement
The Honorable Charles B. Rangel
before the Trade Subcommittee
of the Committee on Ways and Means
February 20, 1991

Mr. Chairman, I would like to commend you for holding these hearings on the important subject of the Mexico-U.S. Free Trade Agreement. You have arranged for an impressive list of witnesses to testify on free trade negotiations, and I greatly appreciate the opportunity to join the Subcommittee today to discuss the agreement with the witnesses.

As you know, I chair the Select Committee on Narcotics Abuse and Control, which has for many years examined not only U.S.-Mexican cooperation on narcotics control, but also our relationship on a host of other issues. In all of the drug producing and transit countries, we have discovered that the narcotics issue is inextricably linked to a number of other important issues, frequently including local economic and social problems. Our Select Committee on Narcotics study missions to Mexico, in particular, have always included border relations, trade, and immigration, in addition to the stated purpose of studying the narcotics problem. In our discussions, we have never been able to truly isolate the narcotics issue.

I recently led a Select Committee study mission to Mexico City where we met with President Salinas and his Cabinet, including his Free Trade Agreement Negotiator, Dr. Herminio Blanco. President Salinas has declared the drug production and trafficking in Mexico as a national security threat. He is very committed to improving

Mexico's narcotics control capabilities as well as improving narcotics control cooperation with the U.S. and other countries. Likewise, he has demonstrated a clear commitment to economic reform and to better relations with the U.S.

Mr. Chairman, I must say, that this was the most positive series of meetings with Mexican officials that I have witnessed in a long time. For the last decade our narcotics control relations have consisted of little more than both sides pointing fingers across our border, saying the problem was on the other side. This finger pointing has stopped and has been replaced by meaningful cooperation. I am hopeful that this cooperation will continue. All too many times in the past narcotics control cooperation has reached small peaks only to fall again as other aspects of our bilateral relationship have taken precedence. We must not become complacent in our relationship with Mexico.

Our Committee Members have repeatedly stated that we believe that the U.S.-Mexico Free Trade Agreement should contain a provision relating to narcotics control. We have raised this here in the U.S., and we raised it with the Mexican officials with whom we met. Both President Salinas and Dr. Blanco were opposed to any direct linkage between narcotics control and free trade. However, both agreed that there could be recognition of the issue within the negotiations and the agreement.

I encourage our U.S. negotiators to make recognition of the the narcotics issue part of the trade agreement agenda. Success or failure of our mutual narcotics control efforts will have an impact upon the economies of both nations, and will therefore also affect the success or failure of this trade agreement.

Thank you, Mr. Chairman, for allowing me to participate in this hearing.

Chairman GIBBONS. Yes, sir, Mr. McGrath.

Mr. MCGRATH. Thank you.

Mr. Chairman, I commend you for initiating these hearings at this critical juncture of the North American Free Trade Agreement. The United States, together with Canada and Mexico comprise a market of over 360 million people, with annual production of more than $6 trillion.

As global competition for new markets becomes keener, a North American alliance will enable us to position our goods and services to compete with the European Community and with Pacific rim regional trading blocks.

In order to accomplish this, however, we must tear down barriers that restrict the flow of goods, services, and investments and stabilize access to the American market. This will prompt economic development and improve political stability of our trading partners.

New York State's economy is one of the largest in the world, ranking just behind Canada, and ahead of Brazil in total production of goods and services. The State's export trade economy is growing. It accounts for nearly $27 billion of exports annually; over $4 billion to Canada; and over $800 million to Mexico.

New York City, and its port, is the leading metropolis of the world's richest market. It is this country's leading center for merchandise imports, with 20 percent of the Nation's imports, and 40 percent of the air imports. This emphasis has created a host of related goods and services which has bolstered employment and income in the area.

Mr. Chairman, we must pursue a trade agreement that is favorable to each nation involved. While it will increase trade, investment flows, and economic development, this agreement must contribute to long-term competitiveness and be comprehensive in its coverage.

It must not adversely alter the structure and composition of the United States' economy in a way that causes decline in American competitiveness or imposes undue hardship on American workers.

The United States, Canadian, Mexican economic integration must take into account momentous considerations such as harmonized standards and enforcement procedures that protect intellectual property, as well as, protection of the environment. And to go along with my colleague in New York, Charlie Rangel, it must increase cooperation into the fight of the importation of illegal drugs into the United States, either as part and parcel of the agreement, or as a significant side agreement.

I am confident that these hearings will address these and other vital considerations and will enable us to create a North American common market.

Thank you, Mr. Chairman.

Mr. DORGAN. Mr. Chairman.

Chairman GIBBONS. Yes, sir.

Mr. DORGAN. Might I just add, Mr. Chairman, briefly that my understanding of the United States-Mexico free trade proposal and the clock that is now ticking for approval of the fast-track authority, is that the ticking clock now is irrelevant with respect to the extension of fast-track authority for the Uruguay round. That is, if there is not extension of authority, fast-track authority for the

Uruguay round there will not be a United States-Mexico Free Trade Agreement no matter what happens to the current ticking clock.

For that reason, I hope that we will discuss in this hearing the extension of the fast-track authority for the Uruguay round as well.

There will likely be a request for an extension from the administration, some of us expect. And there will likely be a resolution of disapproval sponsored by myself or perhaps some others, unless we hear some discussions about goals and strategies that we think represent the best interests of the producers in this country. I hope that, during the discussion today, we can talk a little bit about what those goals and strategies might be with respect to some future negotiations in the Uruguay round and how those future negotiations would affect producers in this country.

Chairman GIBBONS. Well, you can do with your time as you wish, of course, all members can.

Mr. MOODY. Mr. Chairman, you are still accepting opening comments?

Chairman GIBBONS. Certainly.

Mr. MOODY. Thank you for letting me participate in this meeting. I would hope, Madame Secretary, that we would be very insistent on several issues as we negotiate this agreement.

One is labor, the rights of labor in Mexico. As I understand it, trade unionizing there is very difficult. The unions that exist are often company unions and they are only unions in form and not in substance. And I would hope that labor rights would be an important ingredient.

I would also hope that environmental standards would be important. I would hate to see U.S. manufacturers or others competing on a very unlevel playing field while they have to observe environmental standards in the United States, appropriately so, and at economic cost to themselves; and their competitors in Mexico would not have to so comply with anything comparable, and would therefore, have a tremendous cost advantage which would directly cause goods and jobs to flow in the wrong direction, for artificial reasons.

Regarding health and safety standards, I join with my colleague from California, Mr. Thomas, on that. I think that is very important. And then finally, as a sort of general theme, enforcement. Since I am from a beer-producing area, we have looked into beer and the laws would allow us to sell beer in Mexico. Yet, in fact, the way that the distribution of beer is rigged—and I use the word advisedly—there is no way that we can sell any beer in Mexico, even though antitrust laws on the books suggest that we could, because of their distribution system.

So enforcement, whether it be in the antitrust area or other areas, and enforcement, particularly in the environment and labor areas, I think is going to be awfully important. I don't think the level of enforcement in Mexico is really comparable at this time, for a variety of reasons.

So those are my concerns, and I appreciate your looking at those carefully.

Thank you.

Chairman GIBBONS. All right, I think we are ready for you now, Madam Ambassador.

STATEMENT OF AMBASSADOR CARLA A. HILLS, U.S. TRADE REPRESENTATIVE

Ambassador HILLS. Thank you, Mr. Chairman, and members of the committee, I appreciated your comments and I am delighted to be here this morning to discuss with you a truly historic opportunity to create a North American free trade area. I have submitted to you, earlier, my full written statement for the record. And with your permission, I would just summarize two points here.

Chairman GIBBONS. Well, without objection.

Ambassador HILLS. Let me then just discuss why we proposed these negotiations and the benefits we see for the United States.

First, why did we propose a free trade agreement of this nature? Creating a zone of free trade with our two closest neighbors is a key strategy of the Bush administration's trade policy. That is to promote U.S. economic growth and competitiveness by opening world markets and expanding trade.

Exports are this Nation's primary engine of economic growth. Since 1986, total U.S. exports have risen by 75 percent accounting for over 40 percent of the total GNP growth during that 4-year period. The best way to assure continuation of this growth is to expand our export opportunities by lowering foreign trade barriers. And that is precisely what we are seeking in a North American free trade area—jobs and growth.

We believe that a North American free-trade area creates a win/win situation benefiting all of the parties. A comprehensive free-trade pact can harness the talents and energies of three great trading nations working together to enhance growth and the well-being of all peoples in this continent.

A North American Free Trade Agreement will make all three countries more competitive and better able to meet the challenges of the global market place into the 21st century.

There are substantial benefits, we believe, in free trade with Mexico. The United States has already benefited greatly from the opening of Mexico's market which started in 1986, when Mexico joined the GATT and began a systematic reduction of its trade and investment barriers. As a result of this liberalization, United States exports to Mexico have more than doubled from $12.4 billion in 1986 to $28.4 billion in 1990. Agricultural exports passed the $2.5 billion mark in 1990. Telecommunications exports have doubled since 1986 to reach $1.2 billion in 1990. A steel deficit of $12 million in 1986 has turned to a surplus of $300 million. A 1986 textile and apparel deficit of $91 million has turned to surplus.

A free trade agreement would expand the benefits of trade with Mexico by creating new export opportunities for United States firms and United States farmers, and by stimulating Mexican economic growth, which in turn, increases their demand for United States goods and services—keeping in mind, that Mexico buys 70 percent of its imports from the United States.

The potential for further expanded trade with Mexico by removing restrictions is substantial. A free trade agreement would lock-in

a schedule to phase out high Mexican tariffs. Mexican average applied tariff rate is about 10 percent, as has been mentioned, but it has a GATT right to unilaterally raise its tariffs to 50 percent.

An FTA, is a means of dismantling Mexico's import licensing system. Mexico still requires licenses for about 40 percent of United States agricultural exports, including grains, dairy, and some fruits and vegetables.

With respect to investment restrictions, Mexico has liberalized its investment regulations, but its restrictive 1973 laws remain on the books. We would like to see those laws amended to permit an open, nondiscriminatory investment free of trade-distorting requirements.

An FTA is a means for lowering Mexican services barriers. Mexico does restrict trade in such service sectors as banking, securities, insurance, and transportation. And, finally, Mexico introduced a new patent and trademark law in December of last year. I expect that law to be enacted in April or shortly thereafter, and that Mexico will revise its copyright laws. But an FTA helps ensure that these changes take place.

In short, a free trade agreement is a very effective means to dismantle restrictions, to strengthen our overall good relationship with a neighbor—with whom we have a 2,000-mile border—and to act as a cornerstone for the President's vision of a hemispheric zone of free trade.

In President Bush's September 25 letter to the chairman, he noted that Canada wanted to expand and join the United States-Mexican talks into a three-way negotiation. Since then, we have met many times with representatives of both Mexico and Canada to consider this question.

The three countries foresee several advantages in creating a North American free trade area. It would create the world's largest market with 360 million consumers and a total output of over $6 trillion. By establishing common rules among all three nations, it would minimize the economic distortions that could arise from separate bilateral arrangements. And in so doing, it increases the overall potential for economic growth and jobs that can come from free trade.

In agreeing to proceed trilaterally, the three countries have agreed to certain ground rules. Trilateral negotiations would proceed along the same timetable as originally agreed by the United States and Mexico. We will try to finish these negotiations by the end of this calendar year. Nothing will prevent any two countries from concluding a bilateral arrangement if, for any reason, the third country should withdraw from the talks, or fail to enact the agreement.

And, finally, the United States and Canada have agreed that the United States-Canada FTA sets a floor for future bilateral commitments. In short, there will be no backsliding from that free trade agreement.

Let me take just a moment to address some important social issues that have been raised this morning, and particularly as they may affect a North American Free Trade Agreement. The administration's policy is to move forward on a broad, bilateral agenda with Mexico. This agenda includes issues relating to the environ-

ment, drug enforcement, standards in the workplace, and emigration. In each case, we are taking an active approach to these issues. United States agencies, including the Department of Justice, the Environmental Protection Agency, the Department of Labor, the Department of State are working with their counterparts in Mexico to develop effective responses in each of these very important areas.

I am convinced that our pursuit of a free trade agreement can support progress on these bilateral issues with Mexico. The administration is currently studying the best method for dealing with these social issues, whether that be in the trade agreement, itself, or in a separate document and we want to consult closely with you on these efforts.

Let me just mention the next steps. Today, we are approaching the end of the 60 legislative day review period for the notification of a Mexican Free Trade agreement. This is required under the fast-track system.

The President must request an extension by March 1 of fast-track authority or it will expire on June 1. To proceed with a United States-Mexican Free Trade Agreement, we need an extension. Assuming we clear the 60 legislative day review period, and that fast-track authority is extended, we expect to commence formal negotiations in June. We want this agreement to be comprehensive. Mexico and the United States have agreed that a free trade agreement should progressively eliminate barriers to trade in goods and services and to investment; should protect intellectual property rights; and establish a swift and sure means of dispute settlement.

Large-scale labor mobility has been ruled off the table. Beyond that, we have an open mind. We will continue to consult closely with you and with the private sector.

I am delighted to answer any questions that you may have.

[The prepared statement follows:]

STATEMENT OF
AMBASSADOR CARLA A. HILLS
U.S. TRADE REPRESENTATIVE
BEFORE THE
SUBCOMMITTEE ON TRADE
COMMITTEE ON WAYS AND MEANS
UNITED STATES HOUSE OF REPRESENTATIVE

FEBRUARY 20, 1991

Mr. Chairman and members of the Subcommittee, I am pleased to appear before you today to discuss the proposed negotiation of a free trade agreement (FTA) between the United States and Mexico and the President's recent announcement that the talks will be expanded into a trilateral negotiation including Canada.

As President Bush noted in announcing this initiative, a NAFTA will link the U.S., Mexican and Canadian economies in bold and far-reaching ways. By eliminating trade and investment barriers among our nations, we will stimulate the dynamism of our economies, enhance the competitiveness of our businesses and farmers, and set a standard for trade liberalization for the hemisphere and the world.

I would like to review with you where we stand in the process with Mexico and Canada and look toward what we hope to accomplish in our initiative.

The Free Trade Agreement - First Steps

Last June, Presidents Bush and Salinas strongly endorsed the goal of a comprehensive free trade agreement between our countries. They directed the Mexican Commerce Secretary, Dr. Serra, and me to begin the preparatory work and consultations needed to start FTA negotiations and to report back to them as soon as practicable.

Following that announcement, the Administration held a series of meetings with Congress and the private sector, seeking advice on the idea of an FTA with Mexico. While there were some concerns, there was a good deal of interest in and support for negotiations.

Based on this preliminary work, in August Dr. Serra and I jointly recommended to the Presidents that the United States and Mexico formally initiate negotiations on a comprehensive, bilateral FTA. We agreed that an FTA should lead to the progressive elimination of impediments to trade in goods and services and to investment, as well as to the protection of intellectual property rights, and the establishment of fair and expeditious dispute settlement mechanisms.

Both Presidents welcomed this recommendation, and on August 21, President Salinas wrote to President Bush proposing that the United States and Mexico negotiate a free trade agreement, a step required under the fast-track provisions of the Omnibus Trade and Competitiveness Act of 1988. On September 25, in accordance with the 1988 Trade Act, President Bush wrote to the Chairman of the Senate Finance Committee and the Chairman of the House Committee on Ways and Means notifying them of his intent to negotiate an FTA with Mexico. President Bush also notified them in that letter of Canada's interest in participating in the FTA negotiations and our intent to consult trilaterally about that prospect.

This notification was the first step in the process toward negotiating an FTA under U.S. "fast-track" laws and procedures. It triggered the 60 legislative day clock, during which time the House Ways and Means Committee and the Senate Finance Committee can review our proposal and, if either Committee so chooses, disapprove fast-track procedures for the negotiations. Although the Congress cannot preclude negotiations as a legal matter, without the procedural advantages of fast-track authority, the practical impediments to negotiating an agreement would be all but insurmountable.

Impact of Mexico's Commitment to Open Trade

Consideration of the FTA initiative is possible because of a reorientation in Mexico away from statist, interventionist policies toward a market-oriented system. These changes started in 1986, when Mexico joined the General Agreement on Tariffs and Trade (GATT). They have continued with Mexico's unilateral policies of tearing down trade barriers, privatizing industry, and opening doors to foreign investment.

The opening in Mexico has had a dramatic impact on U.S. trade with Mexico. U.S. exports to Mexico have more than doubled, rising from $12.4 billion in 1986 to $28.4 billion in 1990; U.S. imports from Mexico have grown far less. Although trade deficits are primarily determined by macroeconomic factors, the surge of U.S. exports to Mexico has contributed to a two-third cut in our bilateral trade deficit with Mexico, from $5 billion to $1.8 billion. Excluding petroleum, we now enjoy a merchandise trade surplus of about $2 billion with Mexico.

Some examples of how this expanded trade with Mexico benefits our economy are the following:

- Mexico is our third largest agricultural trading partner, with U.S. exports totalling over $2.5 billion last year.

- U.S. exports of consumer goods have tripled, rising from $1 billion to $3 billion; our capital goods exports have grown from $5 billion to roughly $9.5 billion.

  -- U.S. exports of telecommunications equipment have more than doubled since 1986, with exports reaching about $1.2 billion in 1990.

  -- We now have a surplus in iron and steel trade with Mexico exceeding $300 million; in 1986, we ran a $12 million trade deficit. This switch occurred at the same time that Mexico received a substantial increase in its steel quota under the President's Steel Trade Program.

  -- We also enjoy a trade surplus in textiles and apparel. Four years ago, we had a deficit of $91 million.

Why an FTA?

The review period for fast track gives the Congress an initial period in which to consider the merits of an FTA with Mexico. I would like to briefly highlight what we see as some of the potential benefits of our initiative.

Recent growth in exports to Mexico has been tremendous and has meant jobs for our workers and sales for our companies. Through an FTA, we can consolidate and build on the progress to date and expand opportunities available for our firms and our farmers. Further Mexican liberalizations on goods, services, and

investment, will stimulate Mexican growth and increase Mexico's demand for U.S.-produced goods and services. Consumers on both sides of the border will benefit as increased competition leads to greater efficiency and lower prices for traded goods. For example:

- Mexico still has an average applied tariff of about 10 percent, compared to about 4 percent in the United States. Moreover, while Mexico's top applied tariff rate is 20 percent, it currently has the legal right to unilaterally raise its tariffs to 50 percent, the rate bound under the GATT. An FTA would lock in a schedule to reduce and ultimately eliminate tariffs and other barriers to market access, creating new business opportunities for American exporters.

- In agriculture, a restrictive import licensing system still applies to about 40 percent of the value of U.S. agricultural exports to Mexico, including such commodities as grains, dairy products and certain fruits and vegetables. Licenses are granted or withheld in an arbitrary manner and often act as import bans. FTA talks could provide an avenue through which these restrictions might be dismantled.

- While Mexico has liberalized its investment regulations, much more could be done. We seek an open, nondiscriminatory investment environment in Mexico, free of performance requirements and investment restrictions that distort trade and investment flows. Investment is an issue we have agreed to address in our FTA negotiations.

- In services, we seek additional openings in many areas, including banking, securities, insurance and transportation. In these areas in particular, market entry is restricted, and in some sectors U.S. firms are totally denied access to the Mexican market. We could use the FTA negotiations to seek needed liberalization in these sectors.

With respect to intellectual property rights, we expect action even before FTA negotiations. In January 1990, Mexico announced a program to overhaul and modernize its patent and trademark regime. While the Salinas Administration introduced a new industrial property law in December 1990, this law was not enacted. Although we were disappointed that the law was not passed in 1990, given the assurances we have received from Mexico, I expect these laws to be enacted soon after the Mexican Congress reconvenes in April. We also have had indications that Mexico will modernize its copyright laws to protect producers of sound recordings and computer software. Mexico must provide effective protection and enforcement of intellectual property rights, with reforms offering immediate commercial benefits to intellectual property rights holders. Embodying intellectual property rights protection in the FTA will make such reforms secure for Americans and Mexicans alike.

In sum, the FTA would secure much of the liberalization that Mexico has conducted unilaterally and would provide avenues for additional liberalization. The FTA would be a catalyst for economic growth and development in Mexico and the United States. Both countries would obtain significant mutual benefits from increased trade, investment flows and jobs. The FTA would help strengthen the Mexican economy and create a firm foundation for Mexico's future economic growth. Lower trade barriers and faster economic growth in Mexico will spur U.S. exports and help the U.S. economy expand. Reduced barriers will improve the efficiency and productivity of U.S. and Mexican industries and enhance their competitiveness in international markets.

Mexico also is important as the cornerstone of a comprehensive Western Hemisphere policy. An FTA would be the first step toward President Bush's longer-term goal of hemispheric free trade. And Mexico's example of market-oriented economic reform is a significant role model for other countries in the region.

Finally, Mexico is a close neighbor and a good friend. There are extensive cultural, historical, family and language ties that link us. Our two Presidents are committed personally to maintaining excellent relations based on mutual respect and cooperation. We have a broad bilateral agenda that goes well beyond trade, economic and investment links. U.S. agencies, including the Environmental Protection Agency and the Departments of Justice, State, and Labor are actively engaged in working with Mexico on such important issues as the environment, narcotics, immigration, human rights and worker standards. By boosting economic prosperity in the United States and Mexico, an FTA would enhance each country's ability to deal with these important issues.

Beyond Mexico - A North American Free Trade Agreement

In his letter of September 25 notifying on the Mexican initiative, President Bush noted that the Canadian government had expressed a strong interest in expanding the U.S.-Mexico talks into a three-way negotiation. The President welcomed the chance to work with Canada and Mexico toward this end and noted we would be exploring the possibilities for a trilateral negotiation.

Since September 25, I have met with my Mexican and Canadian counterparts three times, and my deputy has met with his counterparts four times, to consider the issue of a trilateral negotiation. In addition, there have been numerous meetings at the staff level to consider various aspects of a negotiation. We have also consulted with the Congress and the private sector to seek advice on whether to proceed trilaterally.

Based on our work, the three governments have decided to proceed with trilateral negotiations -- that is, to negotiate a North American Free Trade Area (NAFTA). The President so informed the Ways and Means and Finance Committees on February 5.

An agreement among the United States, Mexico and Canada would be a dramatic move forward. It would create an enormous free trade area, with 360 million producers and consumers and a total output of almost $6 trillion. Eliminating trade and investment barriers and achieving common rules among our countries will harness the energies and talents of three great nations, helping them to meet the global economic challenge. A NAFTA would be a bold step toward establishing free trade in the Western Hemisphere and would create a solid foundation for North American growth and prosperity into the 21st Century.

Our consultations have shown that all three governments have the will and determination to make these negotiations a success. In considering how a trilateral negotiation might take place, we have agreed that the negotiation will proceed along the same timetable as originally agreed by the United States and Mexico. That is, we will finish the negotiation by the end of this year. We fully expect to meet this deadline; if it proves unfeasible, we understand that we can proceed bilaterally and still meet our schedule.

Finally, both the United States and Canada agree that the U.S.-Canada free trade agreement sets a floor for commitments between the two countries. Trilateral negotiations will give us an opportunity to improve and expand the U.S.-Canada free trade agreement; the negotiations will not be a vehicle for retreating

from the trade and investments disciplines or liberalization achieved in the U.S.-Canada FTA.

The time is right to attempt this negotiation. In all three governments, there is a shared vision of a North America freed of barriers to trade and investment, where economic success is based on complementary competitive strengths.

The FTA - Next Steps

As I noted earlier in my testimony, we are now in the midst of the 60 legislative day review period for our notification on Mexico. With respect to Canada, the clock has just started.

In addition to this review, we face the expiration of the entire fast-track authority on June 1. If the President wishes to seek an extension of the fast-track authority, he must do so by March 1. Clearly, in order to pursue our proposed trade initiative with Mexico and Canada, we will need such an extension, although the form of that request is yet to be determined.

Assuming that we clear the 60-day review for the FTA initiative and that a request for fast-track authority has not been disapproved, we would expect formal negotiations to begin sometime in the Spring.

As we have been doing since before the joint Presidential announcement last June, we will continue to actively consult with the Ways and Means Committee and others in the Congress. As part of this process, we will seek your views as well as those of other members of Congress. With the exception of large-scale labor mobility, which has been ruled off the table for the negotiations, we have an open mind on issues surrounding the FTA. I welcome this Subcommittee's guidance and promise to listen closely to you.

We will continue to consult with our advisors from agriculture, industry, and labor, as well as others in the private sector with an interest in any such agreement. We also will consult with state and local governments. The best way to develop a trade agreement that benefits our nation and our people is through a partnership among the Congress, the private sector and the Administration.

Conclusion

At no time have the United States, Mexico and Canada jointly shared such a firm commitment to opening markets and expanding trade and investment. We should seize this opportunity and build a firm foundation for growth throughout North America into the 21st Century. I look forward to working with you as we take this opportunity and make it into the reality of free trade in North America.

Chairman GIBBONS. Madam Ambassador, I commend you for the fine work that you have done in your term of office. I think we are going to have a successful negotiation here.

I realize that this is a difficult negotiation because of the vast differences in the standards of living in the two countries. And I also realize that our economy is so much larger than the Mexican economy but there are very sensitive areas here. The ITC study pointed out that in the area of horticulture there could be possible damage to U.S. interests. I hope that your negotiators would be very sensitive that we should try to avoid damage if we can, and to minimize damage if that is the only way out of it.

I wonder if you would describe the scenario for these negotiations as best you foresee them. What has been the nature of your consultations so far with the Mexican and Canadian Governments? You said that you expected to begin in June and finish in December? That's a very fast negotiation.

I hope that you will make every effort to include the private sector advisory panels in these negotiations. And how will the negotiations be structured? Can you just give us your broad views in that area?

Ambassador HILLS. You asked about our consultations with Mexico and Canada. We have had a number of them. I have met four times with my counterparts to discuss the desirability of proceeding in a trilateral fashion.

My deputy, Ambassador Katz, has met more than a half a dozen times with his counterpart to have similar type discussions.

That leads into your second question of how the negotiations will be structured. We have not commenced the negotiation but we have systematically looked at the issues that would be addressed in a comprehensive free trade agreement. We want to have free flow of goods after a long transition period, which is anticipated by any agreement such as this; free flow of services and investment; a good intellectual property protection; and a good dispute mechanism. We will seek to negotiate in each of those areas, but negotiations have not commenced.

Chairman GIBBONS. Now, as these negotiations go forward, I assume that you are assuring this committee that the private sector advisory groups will be fully consulted and kept abreast of these negotiations?

Ambassador HILLS. We have more than 40 committees that regularly advise us; more than 1,000 private sector advisers. And we meet with them very, very regularly. I or my staff meet on average, about three times a year with each of them. We have had more than 120 meetings last year and will continue that this year. We benefit, a great deal, from their advice and their suggestions.

Chairman GIBBONS. In May 1989, Mexico was placed on a priority watch list under special section 301 provisions of the 1988 Trade Act. You have now removed them from that watch list. This dealt with inadequate intellectual property provisions. What steps has Mexico taken to improve their intellectual property laws?

Ambassador HILLS. The Salinas administration has introduced a bill to provide patent and trademark protection in the last Congress. That bill is pending before the Mexican Congress. I have met

with members of the Mexican Senate who assure me that that law will be passed in this sitting which commences in April.

In addition, I have been told by my counterpart, Secretary Serra, that a revision will take place in the copyright laws, so as to provide adequate protection of sound recordings and the like. Those assurances have led us to remove Mexico from our so-called watch list.

Chairman GIBBONS. I am sure you recognize that there are many in our drug and pharmaceutical industries that consider Mexico's actions to date, and promises to date, to be completely inadequate. What is on your agenda in this area?

Ambassador HILLS. We must get good intellectual property protection. That's one of the major rubrics that will govern our discussions—good services and protection of intellectual property. That is what we call a comprehensive free trade agreement. We will look to Mexico to pass the laws that are necessary to provide the protection that our pharmaceutical industry needs, but not only pharmaceutical, also our across-the-board, our high-technology industries. We think that Mexico will do this because it is in its best interests. If a country does not provide protection of high-technology, whether that be in the form of a patent, a trademark, or a copyright, an investor is simply not going to go to the country. One of the things that Mexico is looking for, in order to enhance its development efforts, is investment from abroad.

Chairman GIBBONS. Thank you.

Mr. Crane.

Mr. CRANE. Thank you, Mr. Chairman, and thank you, Madam Ambassador, for your outstanding testimony and the work that you are launching here.

Coming up later in our program this morning will be some of our colleagues and one, in particular, expressed some reservations about this prospect of an FTA with Mexico. And the reasons why are, amongst other things, the protection of labor; the cost, for example, to American businesses dictated by OSHA, EPA, you name it. And the fact that they either have no comparable standards in Mexico or they are unenforced.

The other concern that he has is dealing with the environment—and again, either lower standards or unenforced standards. In fact, he rebukes your office for failure to comply with congressional directives embodied in statutes. He makes reference to the Omnibus Trade and Competitiveness Act of 1988, requiring the promotion of respect for workers' rights be a principle negotiating objective in any trade agreement.

That view is also going to be echoed by Friends of the Earth, who will speak to the environmental question. And according to the testimony that they will present, they indicate, that based upon the experience with the maquiladora industries, there has been severe damage to the environment. They contend that in San Elizario, TX, a shared aquifer has been contaminated and 35 percent of the children contract hepatitis A by age 8, and 90 percent of the adults have it by age 35.

These are not the most immediate concerns in negotiating a free-trade agreement, but could you respond to the concerns that we'll be hearing later in the day and indicate how we can guarantee

that there will not be the inequities and the injuries to the environment and to labor that are being proposed as possibilities by these further witnesses?

Ambassador HILLS. The President is very concerned about protecting the environment and has met with President Salinas, who is similarly concerned, in Monterrey, in November of this past year. There was an agreement to have a binational comprehensive plan to deal with environmental problems at the border. I should tell you that if we are concerned about the environment, we should not turn our back on Mexico. We should try to take steps that will assure us that Mexico can do as much as is humanly possible to protect the environment. We think that our bilateral efforts will help it do so.

There have been a number of efforts undertaken, first the joint master plan that was announced in Monterrey. That plan will be out for public comment in September. There have been no fewer than five annexes to an 1983 framework to deal with border issues, issues dealing with the handling of hazardous wastes, sewage, clean water and air and the like.

And I believe, as a result of our binational consultations, it led to the 1988 passage of the Mexican environmental law which is very similar to our laws on environmental protection. Their laws meet the requirements of industrialized countries.

President Salinas has been forthright in trying to address environmental problems. He has doubled his environmental budget. Pemex, the State agency controlling oil supplies, has determined that gasoline, starting this year, will be unleaded. And all automobiles produced, starting this year, will have catalytic converters. There are a host of other issues that are being addressed, including proper levels of pesticides. Mexico has pesticide standards that are the rough equivalent of ours enforced by the Food and Drug Administration.

Mexico has a legitimate problem in the area of enforcement. One thing that we can do is to work through our bilateral efforts, which as I mentioned, involving State, Defense, the Environmental Protection Agency, and the Department of Justice, in addition to USTR. The other is to encourage the creation of wealth. The FTA can assist Mexico to obtain investment and to get jobs; that will not only stimulate their expenditures in this country, as they spend 70 cents of every dollar expended in this country, but it will also give Mexicans the resources to help address some of these environmental issues.

We want to reach out to the groups in this country who are concerned, and rightfully so, about the environment and we want to talk to them whether it is more appropriate to deal with these issues within a trade agreement, or whether there are alternate means of dealing with these issues?

But we agree that we do not want to ignore them.

Mr. CRANE. Thank you very much, and I think that should be reassuring to know the concerns that you have registered to some of the issues which will be raised by witnesses who will be forthcoming.

One other issue that is a matter of concern to me, to our chairman, to many members of our committee who have tried to pro-

mote the Caribbean Basin Initiative is, as we go forward with the possibility of a Mexican FTA and subsequent thereto Andean nation FTA's, this works to kind of erode the advantages we tried to give to Caribbean nations. Is there anything that can be done to enhance in the meantime our Caribbean Basin Initiative Program?

Ambassador HILLS. I think the Caribbean Basin Initiative Program is working well, and I will want to consult with those countries as well as you and others who are interested in the issue.

The fact of the matter is that most our trade with those countries comes in without duty. That is, under the Caribbean Basin Initiative I and II, and the general system of preferences, the vast majority of trade with the Caribbean nations comes in without being charged a duty.

So we do not think that there will be hardships suffered by those nations, but we want to be assured that we deal with their economic interests so that they, too, can grow. After all, the President's long-term vision is to grow prosperity throughout the hemisphere.

Mr. CRANE. Thank you very much for your testimony, and I appreciate working with you.

Ambassador HILLS. Thank you very much.

Mr. CRANE. Thank you, Mr. Chairman.

Chairman GIBBONS. Thank you, Mr. Crane.

While we are talking about the Caribbean Basin Initiative, I have in my pocket here a bill that I expect to circulate around to the members of the subcommittee, hoping for cosponsorship, that removes the rest of the barriers on their trade to the United States. It unfortunately does not deal with the problem of sugar. We have never been able to work out any kind of format to deal with that problem because of the involvement of the European Community.

But I just wanted the Caribbean folks to know that we still want to work with them. There are many of us here, I believe, that want to remove the rest of the restrictions on their program.

Mr. Pease.

Mr. PEASE. Thank you very much, Mr. Chairman, and thank you, Madam Ambassador, for appearing before us this morning.

Since my time is limited, I would like to ask you a couple of questions. I want to ask you what advantages, in addition to tariff reductions, you see in an FTA for bilateral trade between the United States and Mexico? The wage differential already exists and that is attractive, of course, to some American companies that want to go down there. But in terms of United States companies doing business with Mexico, what advantages do you see when you are finished with an FTA, other than the reduction in tariffs which is the obvious advantage?

Ambassador HILLS. There remain a number of restrictions on open trade with Mexico, a country of some 86 million consumers and producers. In addition to much higher tariffs than we have, there is import licensing on more than 40 percent of our agricultural products, which is our principal export from this country, and Mexico is a net importer of foodstuffs. There are restrictions on the access for our service providers across the board, and there is inadequate protection of intellectual property.

We think that we can provide a setting so that we can open trade in a manner that is a win-win situation and be job-creating on both sides of the border, if we can begin the process of opening markets to all of our entrepreneurs.

Mr. PEASE. Thank you. In relation to your comment about a win-win situation, that is a term that is frequently used, and I have heard one economist after another say that if you take two nations with given levels of economic activity and you combine them, what you get is a sum is greater than the parts. That is probably true in general.

I have been told that the economy of the United States and the economy of Mexico, and Canada too, for that matter, will improve if we have a North American FTA. What I am concerned about is not the overall growth of the economy of the United States which would result from a free trade arrangement with Mexico. What I am also concerned about is what happens to individual sectors.

I represent the whole economy in a sense, but I also represent living, breathing American workers. Particularly in Ohio, which is a traditional manufacturing sector, I am having difficulty understanding how it is that a free trade arrangement with Mexico will benefit the people that I represent—not the owners of corporations, not high-income, high-technology professional people who will benefit from increased intellectual property protection, from increased services and so on, but—the people who are working every day in the factories of my district, making products, doing a good job, being productive workers. How do you see this FTA helping that particular group of people?

Ambassador HILLS. I think an FTA will expand their job opportunities, and I say that because I suspect in many parts of your jurisdiction there are companies that are facing heavy competition from East Asia. We know of companies, a large number of companies, that have not only remained open without layoffs, but which have expanded their opportunities for job creation by having some portion of their components made in Mexico.

Investment in Mexico has already occurred because investment will go to a place where it makes sense because it secures a reasonable return. It makes sense to have those lower-skilled component parts made where the wage rates are less, and there are ever so many instances where that not only maintains the enterprise in, say Ohio, but it actually expands the enterprise. I have an example of a company in electronics. It made an investment with a maquiladora 5 years ago. Today, its U.S. employment is up 50 percent, and its sales are up 400 percent.

I have another example of a company in the medical equipment business and it was able to keep its doors open because of an investment made in Mexico. You can go across the spectrum of American manufacturing. I think that we, as a country, will become more of a world-class competitor taking advantage of joint production arrangements with Mexico. They are occurring, to some extent. When you ask me what are the restrictions that now exist? Many still do exist. So it, in effect, is to our benefit to reduce those restrictions so that we can obtain those benefits which will benefit our workers, contrary to some of the testimony you are going to receive today.

Mr. PEASE. Madam Ambassador, what you say is correct to a limited degree. There are examples of companies which benefit from having lower-priced components and that allows them to stay open. I have heard that argument. I have been down to the border twice now, and I have visited maquila plants and that's the standard argument behind opening a maquila plant.

I would say to you, that in my opinion, this is, by no means, the whole picture. Many workers will simply lose their jobs, as the whole factory is shipped down or sent down to Mexico.

In my part of the country, I have seen, over the last two or three decades, companies in Ohio moving operations to other parts of the United States for the same reasons that companies might be tempted to move to Mexico. I have seen them seek lower wages in South Carolina, North Carolina, Tennessee, and Georgia. I have seen them flee labor unions in northern Ohio to go down south. I have seen them go down south in order to take advantage lower tax rates.

In those situations, the companies have not shipped part of their production down south, to take advantage of the lower wages, and subsequently brought it back. They have shipped the whole company down south and laid off workers.

I would like to say that under an FTA, if there is one, then U.S. corporations will make decisions about where to locate their production—part of their production or all of their production. Those decisions will not be made by family owners who live in the community, participate in community activities, and generally serve as pillars of the community. This was the tradition during the early part of this century.

Increasingly now, family companies have been sold to conglomerate corporations, which may be headquartered in Chicago or New York or elsewhere, and in which the people who make the decisions have never even heard of a Elyria, OH or a Lorain, OH.

Indeed, now, we're getting to the point at which those decisions will be made by management in transnational corporations that own the local companies. Such management is often not headquartered in the United States. There is one company, even now, in my district, whose fate is being decided by the foreign owners of that company. The company was formerly a local company, but is now owned by a Norwegian company.

So it seems that the decision as to whether to close the Ohio plant would be made in Norway, not Lorain County, OH. But as a matter of fact, the company decision may not even be made in Norway, because the Norwegian company is owned by a Japanese company.

So, the point I am trying to make is that these decisions are being made by corporate executives all around the world who don't have any idea how such strategic decisions will affect the communities in which the operators are based; by executives who have never been to these communities and have no intention of visiting them. And, yet, the decisions that they make will determine whether people who live in my area—ordinary, middle-income, middle-class Americans—will have jobs or will not have jobs. And those decisions will be made outside of Ohio by computers and by C.P.A.'s, but they will affect us.

Now, when those computers, and those C.P.A.'s analyze how much it costs to manufacture a product in a Elyria, OH, or in Lorain, OH, or in Tennessee or in Mexico, they look at numbers. They crunch numbers. They will look at labor costs, for example, and see the average hourly wage for manufacturing workers in Mexico is 57 cents an hour. They will look at Ohio and see that it is $10.50 an hour. That will be a factor in their decision.

They will look at worker health and safety and they will assign a cost to that, because complying with OSHA is a cost for corporations. And they will look at the laws of Mexico, how adequate they are, in the area of worker health and safety and they will also look at the enforcement of the laws. And if these corporate executives make the determination that it is going to cost them less in terms of worker health and safety, because Mexicans are not going to have stringent laws, or are not likely to enforce them, that becomes a number in the computer that determines whether it is cheaper to produce in Mexico or in Ohio.

Similarly, for environmental standards, the Clean Air Act, the Clean Water Act imposed costs on American corporations. Those costs are quantified by American corporations by the C.P.A.'s who make these calculations. And if the American corporations decide that the environmental standards of Mexico are not comparable to ours, and therefore much less costly to comply with; and that the enforcement is not adequate, so that corporations are not likely to get caught if they don't comply at all or they are likely to be fined the minimal amount; these factors are incorporated into production cost estimate.

And if American corporations consider the question of labor unions, and look at Mexico and decide that labor unions in Mexico are more unions in name than in fact, and that the unions of Mexico are not likely to aggressively seek higher wages or better working conditions for their workers compared with unions in the United States, this becomes a factor also.

And the bottom line for me is that United States corporations, given these factors, more often than not, will decide, yes, it is cheaper to operate in Mexico than it is in the United States and we will just shift our production down there.

Or they will say to their American workers in my part of Ohio, "Gee, we would love to continue producing in northern Ohio but the costs are too high relative to the costs of producing in Mexico. But if you are willing to take $1-an-hour or $1.50-an-hour or $3-an-hour pay cut, then we can keep the production in northern Ohio for another year or 2 years or 3 years."

So either my constituents are going to lose their jobs altogether in that situation or they are going to be under constant pressure from management to accept lower and lower wages.

I must reiterate that I am concerned not about the owners of the companies, or about the 20 percent of our population, or perhaps 30 percent, which is professional and able to take advantage of the higher level, higher skilled jobs. I am concerned about the middle class of this country; the people who have worked hard for years, who have earned enough money—often because of vigorous action taken by the unions—to buy a house, to buy a couple of cars, to buy a boat perhaps, or a motor home, to send their kids to college.

And the people in my area now, my part of Ohio, as a result of the investment shifts that they have seen in the last 20 years, are extremely discouraged. They have seen their absolute standard of living going down as manufacturing wages have dropped over the last 10 years.

And frankly, they don't see for their children the same opportunity that they had to buy a house and to send their kids to college. So with this long preliminary statement, I want to ask you, what you have in mind in the negotiations to address these specific concerns, in specific ways, so that I can report back to my constituents that there will be some protections for them?

Ambassador HILLS. I think I would tell them that what a free-trade agreement does is invest in their future. That rather than try to protect a job with a trade barrier, that is under competitive pressure from East Asia, a FTA will upgrade the job for their children, so that their children can have a better future.

You mentioned, Lorain, and I cannot give them an assurance that things will remain as they are today. Our globe is becoming more interdependent, Norwegians are investing in all four corners, as are the Dutch and the British, but the fact is that investment decisions are made rationally.

And when we look at Mexico, do not expect all jobs in your district to tumble south. And the reason I say that is that the United States has something to offer that is very substantial when held along side of Mexico.

First of all, jobs could have tumbled south in the years prior to this because our tariff rates and our restrictions are rather low. If companies in Lorain want to locate in Mexico and sell to the United States, they could have done that. Why didn't they? They didn't because our workers are more productive by reason of their education, and their college degrees, but also because of our communication system, our transportation system, our availability of capital. You don't want to go to a place where you pick up the phone and you don't get a dial tone directly or there is no fax machine or duplication or you can't get capital in an easy and efficient manner.

And we believe that that explains why United States workers are nine times more productive than Mexican workers. It is because the educational level here is so much greater; better infrastructure; better roads, telecommunications and electricity; and more and better capital availability. Those are the things that make a difference. You can take a sector like automobiles. We only have a 2.5-percent tariff on automobiles. Some companies have located in Mexico but the majority have kept their primary operations here. And those that have had component parts made in Mexico will attest to the fact that they are made more competitive. Indeed, another example is a subsidiary, Packard Electric, which makes power signals and it sells not only to GM, but now as a result of its Mexican operation, it sells to non-GM companies.

From the time that they invested in Mexico, Packard Electric has not had a single layoff.

I think those are the things that you want to talk about. In addition, for the person who is 50 years old, has held the same job and you are concerned about, we will have a substantial transition

period. Nothing is going to be abrupt or changed overnight. There will be long transitions and appropriate safeguards to protect, the present but there will be this opportunity to enhance our future.

Mr. PEASE. Well, thank you.

I would like to just comment on that so that the record is clear. You say these jobs could have tumbled south over the past years, and nothing has changed that much. It goes back to the first question I asked you during your testimony this morning. When we enter into a free-trade agreement with Mexico it is not just that we are providing lower tariffs, which make it advantageous to trade. We will be providing American corporations with, as you pointed out, greater intellectual property protection, if they locate in Mexico. We will be providing them with easier, more hassle-free, cross-border transit, which they don't have now. We will be providing them with a more secure investment climate.

As you pointed out, we will be easing restrictions such as import license requirements and locking in tariff reductions, that sort of thing. We will also be substantially increasing the motivation for and the ease of setting up business in Mexico for American corporations.

Ambassador HILLS. May I respond to that?

Mr. PEASE. Yes.

Ambassador HILLS. I will say to you that your statement sounds as though trade is a zero sum game. When, in fact, if we generate greater intellectual property protection in Mexico and we facilitate the expansion of jobs—such as the San Diego electronics manufacturer that not only increased United States employment by 50 percent, but increased his overall sales by 400 percent—that it is a win-win situation.

We believe that, and we want to work with you, so that when we look at these anecdotes we can pull them altogether. We have done an employment analysis, sector by sector, out of the Clopper-Allman study that was done for the Department of Labor. And it, in effect, shows that the base job gain over the decade is a substantial gain in employment—some 17 million jobs, and indeed, rounded, it is 18 million. With the Mexican Free Trade Agreement, over that same decade, the industries would gain in aggregate about 66,000 more.

So it is definitely a plus factor because it maintains jobs and because it lets those entities maintain their competitive capacity. And we can't put a wall around all of our industry as we are in a global competition. You mention the Norwegians, the Japanese, and the like, and we have to compete with all comers. I think this free-trade agreement gives us the opportunity to do that, I believe can take care of the concerns that you raise in the manner in which we carry it out.

Mr. PEASE. Well, Madam Ambassador, I am happy you think so, but I am really very concerned about this. You say that you would tell the workers in my area that they have to avoid the short-run focus on what may happen to their own jobs in order to upgrade the jobs for their children and secure jobs for their children.

It seems to me that we would be giving up manufacturing jobs in our country in order to shift those jobs down to Mexico under this arrangement, and we would be keeping the high-technology jobs in

the United States—the professional jobs in fields such as engineering—and that is certainly what has happened in the establishment of many of the maquiladora plants. I have been in the Packard Electric plant on the border that you mentioned earlier.

The argument is that we are doing the engineering and the design work and the high-technology stuff in the United States and shipping the labor work down to Mexico. If I were a blue-collar worker in my district, who had worked in a steel mill or a manufacturing plant for the last 30 years and had children who were smart enough to go to college and become engineers, I would buy into your argument. But what I am worried about are the people who are not going to be the engineers and the scientists, who are going to go to work for a living every day, 8 hours a day. And what they are going to find, I think, is that they are going to get more jobs all right, but these will be jobs in the service sector which are lower paying jobs, rather than in the manufacturing sector.

I, again, repeat my question to you, what specific steps do you have in mind to address these concerns in an FTA?

Ambassador HILLS. I would say that the transition period will give time to phase in the adjustment that you are concerned about. I do believe that these companies that we're talking about will be able to keep their doors open and keeping a job is important. Our manufacturing base is not crumbling in this country. You may have seen the New York Times article which is accurate that said that the portion of GNP that comes from manufacturing was at the highest rate it has been since World War II. That is 23.2 percent of our GNP is produced by the manufacturing sector.

It isn't going to be all scientists and engineers but we can slightly move up the scale in terms of the skill level, because American workers are highly skilled, can be very well trained, and we can grow our employment opportunities. Our studies tend to show that employment opportunities, competitiveness will be enhanced by this free-trade agreement. I am not suggesting to you that there will be a massive increase because the amount that we're talking about in dealing with Mexico will start relatively small.

But I do suggest to you that what we are embarked upon is creating a win-win situation with jobs created on both sides of the border.

Mr. PEASE. Madam Ambassador, I don't want to pursue this much longer, but we heard this during the entire decade of the 1980s how many jobs had been created under the Reagan administration. And there were jobs all right, and there are all kinds of them now in my district, in video game arcades, in video rental shops and in the fast-food business, but not in the manufacturing sector. And the average hourly wage of manufacturing workers in my district has gone down, not up, over the last 8 or 10 years.

When you talk about competitiveness being improved, in a macroeconomic sense, I agree. When you talk about employment opportunities being improved, in a macrosense I agree, but I don't see an improvement if you look at the kinds of employment. So, again, you have not listed any specific steps that you plan to take, so I presume you don't plan to take any. That's one reason I'm extremely concerned and I will certainly be watching this with great interest.

Chairman GIBBONS. Mr. Schulze.

Mr. SCHULZE. Thank you, Mr. Chairman.

Thank you, Madam Ambassador, for appearing before the committee again. As perhaps you heard in my opening statement I am concerned that countries found to be dumping products in the United States from semiconductors to color picture tubes might view a Mexico-United States FTA as a way of increasing their diversionary dumping practices and, in effect, circumventing United States antidumping duties.

Of course, from Mexico's point of view, being used as a staging area in this process would mean more subassembly and assembly plants and more employment and a better economy. And so, in this instance it might be good for them and very bad for us. I guess that leads me to the question of giving the benefit that they would derive, how do you propose to negotiate or combat this type of diversionary dumping?

Ambassador HILLS. First of all, I would not assume that Mexico would welcome dumping if we had joint production facilities. They have a substantial measure of their economy dedicated to manufacturing. They have their dumping laws which are quite similar to ours. But if you assume that——

Mr. SCHULZE. No. I am not assuming that they would welcome dumping, but I am assuming that they would welcome the opportunity to provide employment in assembly jobs. Would that be an incorrect assumption?

Ambassador HILLS. I suppose you can construct a scenario where another party is bringing in goods at a price that you would define as dumped. There are many complainants among the 86 million producers and consumers in Mexico. We would have to spell out what your precise facts were for me to be able to respond. But in general, I could certainly say that we are the investor in Mexico, we would have our remedies because we would have to be incorporated in Mexico. And as you know, we are seeking to strengthen the antidumping rules in the Uruguay round. It will take a little more time, but——

Mr. SCHULZE. Carla, if they are not adapted, will you and the Commerce Department——

Ambassador HILLS. We will take all of the remedies that are available to us under our trade laws which have served us well over the years. I would be glad to sit down with you and look at whatever range of scenarios that you have in mind, and to construct what remedies we could use in order to confront unfair trade practices.

Mr. SCHULZE. In your opinion, is the Mexican Government sufficiently aware and convinced of our deep concern over diversionary dumping? Are they prepared to either take action or to negotiate this issue?

Ambassador HILLS. Most entrepreneurs think that Mexico has a very rigid set of dumping laws of its own and that they are bringing dumping actions in their own jurisdiction for reasons that are apparent. As I say, you and I would have to look at the specifics of the case to see where the complainant would be situated.

Mr. SCHULZE. What I would envision would be companies that were not necessarily producing products for consumption in

Mexico, but basically for consumption in the United States and are just using the Mexico FTA as a method of gaining that entry through sort of the side door. So it seems to me that it is a plus for Mexico because they are just providing the jobs.

Ambassador HILLS. I see what you're getting at. That would be handled by a good rule of origin. You can't just bring a product in and take advantage of a free trade agreement unless you are a part of the free trade area. And we will have to negotiate a rule of origin that determines whether the product is deemed to be of North America origin.

Mr. SCHULZE. I thank you, and I would like to consult with you as we go along on that.

Carla, you said, I think your words were swift and sure means of dispute settlement. As you know, I have been recommending over the past decade a trilevel dispute settlement methodology where the majority of disputes would be handled, probably 60 percent of them at a relatively lower level—the relatively nonpolicy, nonextremely controversial items could be handled. And a higher level, where maybe another 20 percent would be handled and the top 5 to 10 percent would be handled by a very high-level panel—those which involve great political issues, or policy issues, which have long-lasting effects.

I am concerned about the dispute settlement structure and procedures and I wonder if you could be a little more definitive than just swift and sure?

Ambassador HILLS. We will be happy to consult with you about the various models that could be employed. We have enhanced the current GATT model through the midyear agreement at the Uruguay round—by shortening the time for dispute resolution to roughly 6 months. We have a model in our Canadian Free Trade Agreement with a division between dumping cases and general trade cases. We think it has worked very well considering the breadth of our trade, which is close to $200 billion, two-way. The number of disputes is far fewer than an ordinary corporation would have assumed for a commercial litigation budget.

So, I would be happy to consult with you. And there are many commentators who have looked at the subject of an effective, fast, certain—and I stress certain because I do think that our entrepreneurs need to know what the rules are before they invest—and can be assured that if there is a dispute that they can get a resolution promptly.

International arbitration is another way that many entrepreneurs feel is a fair and fast way of getting dispute resolution.

Mr. SCHULZE. Well, as you know, as dispute resolution goes along in the next 10 to 20 years, it will probably in some instances supplant our domestic laws. That's why I am very concerned about dispute resolution procedures and structures and have been for quite some time. I have had some major disagreements with some of your predecessors over dispute settlement. I do think they are extremely important.

Ambassador HILLS. I agree.

Mr. SCHULZE. And will be more important as time goes on. They are going to be more important 10 and 20 years from now than they are today.

Ambassador HILLS. I agree.

Mr. SCHULZE. Madam Ambassador, since joining GATT in 1986, Mexico has made significant strides in reducing tariff barriers. Yet, they still have an average applied tariff about 10 percent, which is probably three times our average.

As I stated in my opening statement, I feel that we erred in the Canadian-United States agreement by not demanding parity before we phased out, worked out a phaseout on the tariff schedules.

How are we going to handle this? I really think that we should have parity and I think that we should demand parity before we start phasing out, and not just say, that's all right, you stay at those higher levels and you phaseout over 10 years and we are at the lower level and we are going to phaseout. We lose for 10 years under that scenario. I don't like to lose for 10 years and I didn't like it in the Canadian agreement and I'm not going to like it in the Mexican agreement. I would like to have your opinion.

Ambassador HILLS. We will consult with all of our entrepreneurs, our private sector, and you, Congress on the tariff issue. We have to be careful about averages in the tariff regime. Mexico's applied tariffs are about 10 percent, and few above 20 percent. Ours are roughly 5 percent. We have some peaks, however, that are much higher than their tariffs. And the question that we would have to consult about is what are we going to do about our tariffs that are much higher than Mexico's tariffs?

Mexico's tariffs tend to be at a higher level across the board and ours are in peaks and valleys. It is subject for a negotiation and we are going to have to work on that because——

Mr. SCHULZE. Can you tell me, is it general policy how you feel about creating some equity before we phaseout? I mean even if we have to bring ours down or——

Ambassador HILLS. Well, it's going to be hard to persuade your trading partner that if they have a 5-percent tariff on something and you have a 55-percent tariff on something, that you are entitled to maintain that simply because the average——

Mr. SCHULZE. No, no, no, I don't want to maintain that. But I want to be on somewhat of a parity as we start phasing out.

Ambassador HILLS. I think that what I would like to do is bring a tariff schedule in and perhaps we could consult on it. You know the sensitivities from our discussions this morning on some of the issues that we are going to face, and I would benefit from your suggestions about how we deal with the issues. I would be delighted to do that.

Mr. SCHULZE. I don't want to prolong this but I would like to discuss just for a second, patent application and consideration process.

And not post-granting of patents, but some times the prepatent process is used as a nontariff barrier. I want to make sure that does not happen in the Mexican-United States agreement. I would like to have your thoughts on it. And also if you know whether Mexico is committed to the world intellectual property organization? Because I know there are negotiations under way there, as well, but I think that patent application and patent processing is, again, going to be extremely important in the world context.

And if we cannot negotiate good agreements in this area between the United States, and Canada, and Mexico, then there is no way

that we are going to do it around the world. We have got to negotiate agreements that we can hold up to the rest of the world and say, this is a shining example of what a trade agreement should look like. So I am very concerned about the patent process and I would like to have your thoughts on that.

Ambassador HILLS. I agree with you. We need to have good patent protection. Your question was, whether Mexico participates in the world organizations? Of course, it participates in the GATT negotiations which are seeking to raise the floor of intellectual property protections, including patents, worldwide. And I think that that endeavor is very important.

As for the organization called WIPO, which sets standards, it has no dispute settlement so that it is not a forum that you would go to in order to get a resolution of a dispute. I think we will be able to negotiate intellectual property protection, for the most part, because I believe it is in the interests of the country that does not have good protection to get it as fast as possible. Otherwise, no matter what sort of an agreement we negotiate investors are not going to go there, particularly an American investor because many of our investments are keyed to using some kind of technology.

Mr. SCHULZE. Finally, a question concerning nationally owned companies under Mexican rules—for example steel, Pemex. Pemex, I think, is the largest utilizer of steel in Mexico. The binational laws say that it buys most of the steel products. It doesn't give us an opportunity to get in the door. And yet, our door is relatively open to steel products being exported.

Can you tell me your feeling on that as you go into negotiations? And how we are going to deal with it? And Pemex is just one example of the nationally owned, nationally controlled companies in Mexico.

Ambassador HILLS. The Salinas administration is seeking to privatize a large number of formerly publicly owned companies and they believe it is in their best interest to do so and I think that you and I would agree.

With that privatization, that drive for competitiveness and the use of market forces, we would hope that procurement would be on the basis of price and quality. And that is part of market schemes.

Mr. SCHULZE. We hope that but are we going to negotiate that, are we going to say that is one of the things that we have got—we have to have access to this market?

And I realize that we have some "Buy American" provisions that we may have to negotiate on this, too, but it seems to me that we have got to open those markets to U.S. producers.

Ambassador HILLS. And, of course, opening markets is the whole reason why we are seeking to engage in this negotiation.

Mr. SCHULZE. Well, under nationalized companies, would you work on phaseouts or just open them up? Can you give me any idea of the direction the negotiators will go?

Ambassador HILLS. Well, you mentioned Pemex, as the example. That's the nationally owned oil company and that probably is not the one that is next on the list for the Mexican Government to privatize. But they have moved aggressively to privatize other concerns.

Mr. SCHULZE. And they are probably not going to privatize their petroleum, maybe some day, but their procurement policies can be changed before they privatize and that's my concern.

Ambassador HILLS. Government procurement is an area where I think could have a constructive negotiation both in the Uruguay round and through these negotiations.

Mr. SCHULZE. Thank you.

Thank you, Mr. Chairman.

Chairman GIBBONS. Thank you.

Mr. Guarini.

Mr. GUARINI. Thank you, very much, Mr. Chairman.

Madame Ambassador, it is always refreshing to have you with us and to have the benefit of your crisp thinking. Many people have criticized the short-run of the FTA with Mexico but I haven't heard very much criticism about the long-run, because I think people basically believe that in the long-run it's good for our standard of living, it's good for our increasing trade, it's good for our national security. All of these are very, very important things and how we get there is going to be the question. That depends on your negotiating skills and the number of years that we can evolve into this program without hurting our own country too much.

Now, if the benefits are going to be there in the long-run, what we have got to be sure is that we can remain competitive. I would like to ask you how will you plan to handle the health and safety issues, the labor standards, environmental issues which right now create a lot of potholes in that level playing ground?

So will you anticipate that any new factories that would be opened there would have the standards that we have in our country so that our industries would be competitive with the new industries that our investments would be building in Mexico, or other foreign countries' investments would be building in Mexico? What is your concept of how we are going to arrange the environmental and health and safety and labor standards in order to be competitive with Mexico?

Ambassador HILLS. You mentioned the environment. Under Mexico's 1988 Environmental Protection Act which is a broad statute and covers ecology, natural reserves, and environmental protection, is similar to our own. It does provide jail sentences, fines, and the authority to close down companies that don't comply with its standards. Mexico has used those enforcement provisions.

President Salinas has said, that for any new company coming to Mexico as an investor, it will have to show that it can comply. They will not be permitted to invest in this country unless they do comply with environmental standards. So that whatever went before and, of course, we want to fix what went before, the new companies coming in will be required to meet the environmental standards.

Mr. GUARINI. All right, now, you and I, as lawyers, know that Mexico has a history of being very lax. And it is how you enforce standards that's so important; not to have the legislation on the books, or to have a free trade agreement that contains certain kinds of standards. But the fact is the enforcement in Mexico, whether it is anticorruption laws, drug laws, environmental laws,

the pollution along the border that we have with the Rio Grande, all of these things have a history of lax enforcement.

And Mr. Salinas is going to be in for another 4 years and then he can't run again, and we don't know who is going to succeed him. So that the will of the administration enforcing those kinds of standards can be very much in question in the years and decades to come.

How do you visualize, how do you conceive that we can have enforcements of these kinds of standards?

Ambassador HILLS. Their laws require enforcement and I think that they have shown a real resolve, particularly in view of their economic status. They have doubled their environmental protection budget. They have taken positions that have been costly. For example, the requirement that all new cars have catalytic converters. That's an amazing step for a country of 86 million people at the level of prosperity that they have achieved.

They have been forthright in dealing with environmental issues and we have leaned in the direction of creating binational mechanisms to try to assist. We have given some resources. The Environmental Protection Agency, for example, has taken the step of assigning someone to the Embassy to assist with environmental issues. I think that's the first time that that's ever occurred.

So we will want to work with the Salinas administration. We are very admiring of not only the steps that they have taken in the area of economics, but also these related areas of environment and other areas, sometimes called social issues. I think they are moving forward on them.

Mr. GUARINI. Yes, but by the same token, if they don't enforce them and if we have no way of assuring they are going to enforce them, we are being left open. I am just wondering whether or not their track record doesn't leave you to query how we are going to have proper enforcement of the environmental safety and health laws and labor laws to have that level playing ground?

To say that Mr. Salinas will do it—we know he has a 6-year term. We know that Mexico does have a long history of lax enforcement of their laws. We have many laws on the books throughout the world that aren't enforced because of the lack of political will of the administration.

Now, are you willing to say that the very fact that they agree will satisfy you or would you go beyond that as to seek a way of being able to assure yourselves that their laws are enforced as we enforce our laws in our country, here?

Ambassador HILLS. I think that it behooves us to reach out and talk to groups that are concerned about these issues and to consult about the best way to handle environment, workers' rights and the issues you mention.

There are countries where our investors are all around the world, as you mentioned, where we do not enforce their social laws. In this instance, a close neighbor has indicated a willingness to work across-the-board through binational teams. We have a binational team on immigration, on drugs, on environmental protection—and just recently a collaboration with the Labor Department on labor issues.

This is something that we do not have with other countries that, as you mentioned, do not meet our standards. So what this free trade agreement is affording us is the opportunity to grow a closer relationship and to work on related issues in a constructive way with a very close neighbor, with a 2,000-mile border. I can't tell you whether the issue of environment ought to be placed in the trade agreement, or ought to be in a separate document, because that is a more effective way to have the EPA and SEDU look at the issue, or whether there is a third alternative. We have not commenced our negotiations——

Mr. GUARINI. All right, I accept that, but at least you will be aware of the fact that there is a concern by some Members in Congress as to how the future administrations are going to enforce the laws in the agreement.

Now, we have labor with a great concern that 400,000 jobs will be lost. Now, this is the short-run we are talking again. Do you propose any TAA or some way of giving assistance to the people who are going to lose jobs in our industries, as a result of the implementation of the free trade agreement? How do you propose to handle that?

Ambassador HILLS. I would propose to look very carefully at the figures. Our figures do not show a short-term loss of jobs, because of the gradual transition. Nothing will be changed.

Mr. GUARINI. Yes, I'm on your side. I want you to know this, but by the same token, when you tell me that I get very worried, because I can't logically see that there is not going to be some pain in the short run.

Ambassador HILLS. Well, you start with the premise that someone has alleged that there will be 400,000 jobs lost. Whereas my analysis shows that actually there will be 66,000 jobs gained over the decade if we have an FTA. And even as I go across sectors where there is a job loss, it is on a basis of no action at all, that is with no free trade agreement. There is a contraction in that sector during the decade.

Because I start with a premise that doesn't mean that I stop with that premise. If there are sectors that we can identify are clearly affected by a free trade agreement, I would want to consult with Congress, particularly Congress, and those affected as to the best means of dealing with those adversely affected.

Mr. GUARINI. Were there any jobs lost in the maquiladora process?

Ambassador HILLS. We believe that there were jobs gained. A number of studies document that there are jobs gained out of the maquiladoras.

Mr. GUARINI. Let me ask one other concern and it was mentioned by Mr. Gibbons with respect to the Caribbean.

We spent 7 years developing with 23 countries a good relationship and have a free trade, as much free trade as possible, with the Caribbean to help uplift these countries.

I have spoken with the leadership in some of these countries and they are very concerned that they are going to be hurt by a free trade agreement with Mexico unless they are taken into consideration some how. Do you have any steps to have them present as

observers or advisors, or in some way to bring them into your process so that their concerns will be allayed?

You, and I, and this committee, and Congress have spent 7 years trying to develop the CBI-I and the CBI-II. We don't want to see that work go for naught. And we do have great national security concerns there also, as well as trade, with our neighbors.

How do you plan to get them involved in a process? Will they be observers?

Ambassador HILLS. I don't think it is required that they be observers, but they certainly will be closely consulted. I am spending an awful lot of time in this hemisphere with our Latin American colleagues and our Caribbean colleagues and we will continue to do that. I think that we can assure them that what comes out of a Mexican Free Trade Agreement will be one that enhances the prosperity in this hemisphere which should be of benefit to them. And, as I mentioned earlier, their trade picture ought not to be distorted since their trade largely comes into the United States presently under preferential arrangements.

Mr. GUARINI. You have mentioned in the past that drugs—and this is another concern of Members of this committee, as well as many Members in Congress—is not a part of the free trade agreement. I would like to just try this on you, if I may?

The President has said that the highest priority of our Nation is to get our drug problem under control. He placed it in the forefront of priorities. I never heard him say that about a free trade agreement with Mexico. Now, we have a unique opportunity that has presented itself and we are discussing the problems we have between our countries.

I feel that drugs are a product, albeit a contraband product. Drugs are involved in trade, albeit under world or underground trade. But the fact is that it is a product that is reaching our shore illegally. Why can't we include drugs as a part of that understanding that we have with Mexico, because drugs are illegally traded, costing our country hundreds of billions of dollars in social costs, law enforcement, lives that are lost, and all the problems we have as a result of this scourge that comes through the Mexican border?

Ambassador HILLS. We will want to look and see whether it is preferable to put drugs, as you put it, within this agreement or whether it is preferable to deal with it outside. We have a binational arrangement that is working on the drug issue, which was launched by President Bush and President Salinas. Our Attorney General and their Attorney General are meeting quite regularly. Mexico has created a northern border response force, a special interdiction team. We have so much collaboration on this issue that the Salinas administration has taken the unusual step of permitting us to accompany on surveillance missions, on the P-3 surveillance overflights through the binational agreement that we have achieved.

We have working groups and information exchange going on. So we have a system. The question is, is there something more that needs to be done or could it be done differently?

I would want to consult with those who really have hands-on drug interdiction experience before we just say, well, let's change

it. Because I have looked into some of the things that have been undertaken and they are really quite remarkable.

Since this binational effort was undertaken, there has been more cocaine stopped in 1989 than in the 6 years prior, and there has been a greater collaboration to stop the passage of drugs into our own country. So we want to be assured that we don't throw out something that is working to substitute it with something just because it's new.

I would like to consult with you, and I am sure we would both like to consult with those who are on the forefront fighting drugs, which I agree with you is a very important priority of our Nation.

Mr. GUARINI. Well, our leverage is now, while we are talking about a free trade agreement because Mr. Salinas wants this agreement very badly. He has taken a lot of initiative, I understand, and this is a great opportunity. I am glad to hear that you will address it, but I would like to take the advantage of being able to make some progress on that particular front.

There are more purer, cheaper drugs on our streets today than there ever were and that indicates to me that there is more coming in. Now, we may not have any way of choking it off, but we do have this problem that needs to be addressed.

I just want to ask you, you said that large-scale labor movement is off the table. I understand that and I agree with that. I don't know what you mean by large-scale or how you define that. But in their constitution, it does not give any leeway for the administration in Mexico to take oil off the table. How are you going to handle their oil, petroleum products which is one of the big issues and big products in working out a free trade agreement with Mexico?

Being a constitutional question, how will that be handled?

Ambassador HILLS. Well, we're going to have to get into the definition of what is restricted. Right now we have some collaborative arrangements. We buy a great deal of crude oil from Mexico, we refine it up here and sell it back to them as products.

There is no question that in my consultations with some members of the oil industry on both sides of the border, we have technology—tertiary recovery and the like—that would be beneficial to the Mexicans. We just have to explore what are the areas that we could have a collaborative arrangement that would be beneficial to the United States and beneficial to Mexico.

Mr. GUARINI. Well, if we have taken oil off the table, what have they taken off the table—anything else besides oil?

Ambassador HILLS. We have taken nothing off the table, not even oil. We would like to discuss it in terms of what areas, in services—could we have a collaborative arrangement. The only thing that we have taken off the table that I think Mexico was interested in exploring was immigration—that is, large-scale labor mobility.

We said that we were not prepared to discuss that. We do have an immigration law and the Mexican workers are taking advantage of it. I should tell you that in my consultation there are many agricultural interests that would perhaps want us to do more in this area. But we will be consulting with all of the interested parties and share with you our consultations so that you can give us

the benefit of your views. But at the present time, nothing is off the table, from our point of view, other than immigration.

Mr. GUARINI. I guess the last question I am trying to get to—have they taken anything off the table? Have they put everything up for discussion, including communications, transportation, oil?

Ambassador HILLS. We haven't started the negotiations so that I can't tell you whether we can anticipate we are going to hit considerable resistance with respect to those issues that are covered by their constitution. But we are going to explore all areas as to how we can begin to work collaboratively in a manner that is beneficial to our respective countries and to the North American Hemisphere as a whole.

Mr. GUARINI. I wish you well. Your undertaking is an important one. Thank you, Madam Ambassador.

Chairman GIBBONS. Mr. Matsui.

Mr. MATSUI. Thank you, Mr. Chairman.

Ambassador Hills, I have some of the same concerns that some of my colleagues have expressed. Although I do feel that your efforts and the efforts of the President are producing in the right direction, with the talks going somewhat poorly in Geneva, we must now begin to think about some bilateral discussions, and particularly the trilateral discussion between Canada, Mexico, and ourselves. I want to note that I appreciate your efforts.

I would like to comment on the issue of intellectual property rights. You refer to the issue in your statement, but I have a major concern. As you know, many of the United States computer companies and sound recording companies have been negotiating with the Mexican Government, I believe, since about 1987–88 regarding piracy of both the computer software programs and sound recording devices.

Late last year it appears that an agreement was reached. The Salinas government introduced legislation, as you stated in your testimony to give copyright protection to both computer software and sound recording. The Mexican Legislature has since taken it off the table. I assume it is going to be introduced when the Government reconvenes.

One of the concerns that many of our companies in the United States have, of course, is that intellectual property safeguards may be held hostage pending the free trade discussions. A solution has been so close. Concerned companies have been working for over 2 years now on this issue and to have the issue perhaps deferred for another 2 or more years, would create obvious problems for these companies.

Is there any way we can get some assurance from the Salinas government that it will pursue this issue and pursue copyright protection before the Congress, here, votes for the fast-track authority?

Ambassador HILLS. The Salinas administration has introduced the changes that you describe. It has been their Congress that has been less forthcoming. But I have been assured, both by the administration and by those few congressional leaders with whom I have spoken, that this will be remedied starting with their sitting in April. I asked a question not unlike yours and they said, by summer.

So that I feel that I have a commitment and I expect that it will be followed through on.

Mr. MATSUI. One of the problems that I have, and that you don't, of course, is that we must vote on the fast-track by some time in mid-May. Obviously the Congress will lose its leverage in terms of this issue after the vote, while you will not. The concern I have is that the Mexican Government may give lip service to this issue now by saying that they will support some kind of change by the summer and once we give you fast-track authority, then the intellectual property issue goes in the mix and becomes a tradable item. This creates a problem for some of us because this issue has been pending for a long time. It is not really an issue that should be related to the fast-track and somehow we, in the Congress, need to communicate that to the Mexican Government.

Ambassador HILLS. I agree with you. It is very, very important. And I think that the lack of good will that such a tactic would create would be very detrimental. You say this is your last chance to exercise leverage. I say fast-track authority is what enables us to negotiate market opening agreements all around the world, and without it, there would be no Mexican agreement and there would be no market openings anywhere.

We can give credit for actions taken now. They can be weighed in the balance of what constitutes appropriate action in the free trade agreement. But I believe I have received an assurance and I would be, as would be you, gravely disappointed if there was a back-sliding on that assurance and I have made that quite clear to my counterpart in Mexico.

Mr. MATSUI. Thank you.

Chairman GIBBONS. Mr. McGrath.

Mr. MCGRATH. Thank you, Mr. Chairman.

Thank you for testifying before us and being so available to us, Madam Ambassador.

Many of the critics of a United States-Mexico Free Trade Agreement believe that the United States will lose manufacturing jobs as firms decide to relocate their production to Mexico. However, what they fail to or neglect to point out is that American companies are already free to create or relocate production facilities to Mexico and to other developing countries that may not have a free trade agreement with the United States.

I suspect that the reason for that is that many of Mexico's exports to the United States are already duty free. And because perhaps many United States' companies have already been able to establish themselves in Mexico, perhaps you can tell us how a free trade agreement would either encourage further dislocation or relocation of production to Mexico? In other words, shouldn't a free trade agreement increase and secure market access for our firms in the United States, thereby strengthening our manufacturing base here?

Ambassador HILLS. Absolutely. Since 1986, our exports to Mexico had doubled. That tells you that we are exporting goods produced with our workers, creating jobs for us. They went from $12 billion to $28 billion. And that is an amazing increase since 1986. So that there is no question that by removing barriers further—because the restrictions to trade in Mexico are, on average, higher than the

restrictions that we have—would be beneficial to American entrepreneurs in manufacturing.

Mr. MCGRATH. The ITC, in its summary of the likely impact on the United States of a free-trade agreement with Mexico, points out that in some cases horticultural products and glassware would be more adversely affected than other segments of our economy or other regions of our economy. I am wondering, can you tell us, on these two occasions of horticulture and glassware, or any others that may have a disproportionate impact, adverse impact, how you would proceed to handle those situations in the upcoming negotiations?

Ambassador HILLS. Those are two areas that the ITC's report identified. And I think the best way to deal with sectors that are going to be adversely affected by such an agreement is to develop a transition period that meets their concerns.

We also have a mechanism in our Canadian Free Trade Agreement that we think has been effective. That is during the transition when there is a surge of imports, we have what we call a snapback tariff. And that provides a protection for a domestic concern for a short period of time, when the seasonality, for example, in horticulture doesn't quite mesh. And that can be used. There are a number of devices that can be used that permit an adjustment in a fashion so that there ought not to be any harm. And, indeed, the ITC report does not find substantial harm at all in any sector.

Our analysis, based upon the Clopper-Allman study, shows that in all sectors there is going to be either a gain or such a minuscule effect in terms of jobs, that with a proper adjustment period, we can deal with it.

Mr. MCGRATH. Thank you.

Happily, the United States trade deficit for the last year declined to $100.1 billion which is the smallest annual total in the last 7 years. And since 1983, our trade deficit with Mexico has declined from approximately $7.9 billion to $2.4 billion.

I am wondering whether or not there is any way that you could quantify what the free trade agreement, potential free trade agreement could lead to in terms of a further reduction of our trade deficit, or perhaps a trade surplus with Mexico?

Ambassador HILLS. I think that as a normal proposition I would point to macroeconomic factors that would drive the condition of your deficit surplus or your balance with another country. Because Mexico has higher restrictions than have we, and particularly in some areas of services we could see the investment into Mexico creating an actual deficit for Mexico as it gets the benefit of this capital investment.

The economists tell us that that would be the predicted effect, where you have different levels of protection. We also say that because of the experience that we saw in the European Community with respect to the northern tier countries of Germany and France, versus Portugal, Spain, and Greece. And when the higher restrictions were gradually phased out, the investment that was created in the southern tier countries tended to create a deficit for them and a competitive opportunity, we think, for both. The northern tier countries' wage rates not only maintained themselves, but

went up, and their surplus went up; but so did the investment in the southern tier states.

Mr. McGRATH. In the recent GATT negotiations Mexico has introduced a concept called relative reciprocity, which would recognize that there cannot be equal treatment among unequal partners. I am just wondering if you could comment on how that concept of relative reciprocity may either strengthen or weaken the scope of the free trade agreement with Mexico?

Ambassador HILLS. I look on Mexico as an equal partner and I would hope that the negotiation would follow along those lines. I think that's going to be in Mexico's best interests and our best interests. So that I would rather not talk in terms of a differential.

Mr. McGRATH. In recent years, Mexico has permitted more and more direct foreign investment, including that from the United States. Mexico's investment liberalization efforts are commendable, as a developing country, and are encouraging to our hopes of a substantive agreement in the context of the FTA. However, during the Uruguay negotiations, Mexico has been against the inclusion of the right of establishment or commercial presence of foreign direct investors as a part of the multilateral foreign-investment agreement.

Do you expect their recent multilateral position on this issue to affect their negotiating position vis-a-vis the United States and Canada in the FTA?

Ambassador HILLS. I am not sure that we have accurately summarized their position. They have taken a position that as a developing country they want to have a differential, and they have not been as forthcoming as we, as negotiators, would like in some areas. I suspect that we will have very tough counterparts in the negotiation. I cannot tell you exactly the positions they will take or whether they will be identical to those that they have taken in the Uruguay round of talks.

Mr. McGRATH. I am comforted by your answer to the last two questions, but I guess you can see how it would create some discomfort up here in terms of what they say during a multinational agreement, as opposed to what they are willing to do during a bilateral or binational agreement. I would just urge you to keep that in mind and to watch out for the dichotomy that seems to exist on either sides of these issues as it applies to Mexico.

Thank you.

Ambassador HILLS. I appreciate your comments.

Chairman GIBBONS. Thank you, very much.

Let me make an administrative announcement now. I expect to go to Mr. Anthony next and then the remainder of the members up here. And then to take our witnesses who have been waiting here so patiently all morning. I express regret that it has taken so long to get to you. I am sure that the Ambassador regrets that it has taken so long to get to you, too. [Laughter.]

And then we will take a little break for lunch and come back about 2 p.m., after we take the witnesses scheduled right after the Ambassador. Is that agreeable with the panel members?

All right, fine.

Mr. Anthony.

Mr. ANTHONY. Thank you, Mr. Chairman.

Welcome, Ambassador Hills.

Ambassador HILLS. Thank you.

Mr. ANTHONY. Listening to the questions and comments and then also briefly reading some of the testimony, I think that when you go home today, or back to your office later this afternoon, you are going to get a feeling that everybody was for the free trade treaty with Mexico but there are a lot of ifs, howevers, and whens. After having briefly looked through the summary of the ITC on the likely impact on the United States of a free trade agreement with Mexico, I think you are going to have to mark me down with them because it talks about the regional impacts.

Inasmuch as we are in a political environment, I come from the Southwest. My district connects with the corner of Oklahoma and the corner of Texas and the ITC study does indicate that there will be some regional biases and some regional impacts. Also within those regional biases there will be some small business and some different industry sector biases. Those will obviously be the areas where I will be looking for the ifs, the whens, and the howevers, to make sure that they are treated fairly in negotiations or in transition.

I have got four separate areas that I would like to just briefly get into. One, the comments you made earlier about large-scale mobility off the table. That is an issue that has been very sensitive to us in the farm sector in my part of the United States. I have worked very hard, both in the farm bill and in the immigration bill, to make labor available to the sector of the farm economy that only needs occasional or seasonal laborers.

My query is why did you take it off the table? Did you feel that we had absolutely nothing to gain additionally by having this issue continued to be discussed?

Ambassador HILLS. There was enormous concern expressed by a number of parties with whom we consulted about adding immigration, and by immigration, I mean a free-flow of labor as one would have a free-flow of capital as a factor of production. There is the 1986 immigration law, as you are aware, and under the Immigration Reform and Control Act—1.3 million people have qualified to come in under the special agricultural worker program; and of these, 1.1 million have been Mexican. So in looking at that and consulting with some of our advisors in the agricultural sector, it seemed that that act was providing the kind of assistance that that sector looks for. Having free mobility of labor was deemed to fail outside the scope of free trade agreement, certainly as traditionally interpreted.

Mr. ANTHONY. Is the decision irrevocable? If additional information becomes available during the course of the negotiations, provided the fast-track is not disapproved, are there still opportunities to fine line some of the problems?

There still are problems out there. I think that what I am hearing you say is that they were afraid that the overall policy concept would create more problems inside the trade agreement and that they would rather leave it outside and negotiate separately on those problems.

Ambassador HILLS. We would be happy to consult with you and talk to you about the legislation that is now in effect, how it is working. You have heard this morning a number of social issues

being raised, which may be appropriately dealt with in an agreement or may just sensitize the administration that we ought to work with Congress on dealing with that particular issue and what is the best way in which to deal with it.

And your concern may be one that when we ferret out all the facts and consult with the people who may be adversely affected we can come up with a proposal that we can deal with, your Immigration and Naturalization problem.

Mr. ANTHONY. I would like to continue to work with you on that because it is obviously a very sensitive issue in our part of the country.

On the CBI, I happen to be a very strong supporter of the Caribbean Basin Initiative. I went on the first trip that President Reagan requested this committee to take. I have been on several oversight hearings and certainly will work with Chairman Gibbons to hopefully continue our progress there by knocking out some of those other exemptions. I know how difficult that would be.

But again, in reading the ITC report, it does specifically mention in the textile and apparel industry area that the CBI very likely could be displaced in the short term. So I would just like to remind you that your administration is a very strong supporter for other reasons of the CBI and that while we negotiate with Mexico, we make sure that we don't help one friend while we are hurting another friend. We obviously want to end up helping both of the friends. I think that would be the attitude with which you would go into the negotiation. But the ITC report itself does at least highlight the fact that there could be some harm in that particular area. So I would just like to be on the record as saying I want to work with you to see that both are helped and supported and one is not hurt to the exclusion of the other.

Ambassador HILLS. We would be happy to work with you.

Mr. ANTHONY. I wish you could just quickly explain to me why there is a policy decision behind a coupling of the free-trade treaty with the extension of the negotiating right for the Uruguay round?

Ambassador HILLS. I didn't hear your question. I'm sorry.

Mr. ANTHONY. Why is there a coupling of the two? In other words, I'm assuming that there is—I understand that there is going to be an extension requested——

Ambassador HILLS. Right.

Mr. ANTHONY [continuing]. And we will have to move on that. And that the free trade treaty with Mexico is hooked in with that. That they are not separate and apart. I have obviously missed something in the briefings or my reading material.

Ambassador HILLS. No. Actually the extension applies to any trade agreement that the administration would undertake. Under the Constitution, you have authority over international commerce. You approve or disapprove reductions of tariffs beyond a certain limit that you have delegated to the executive branch. But the President has constitutional authority to negotiate with foreign entities, which includes negotiating trade agreements. And without a fast-track authority we really can't negotiate. So fast-track is not hooked to these two agreements. It is just that without this authority we can't negotiate market openings anywhere very effectively.

And we have seen that because our history has been in the Kennedy round, we were unable to bring home an agreement that we could get approved and certain segments fell off the table. When we went to negotiate in the Tokyo round, our trading partners would not negotiate with us.

In 1974, Congress passed a fast-track authority. When we commenced this negotiation, this Uruguay round in the 1988 act we also got fast-track authority. The reason is self-evident. Our trading partners are not going to negotiate and give us their bottom line if they think that when they do so, I'm just going to come up and give it to you for you to ask for another bottom line.

So they would just rather not negotiate at all. I think it is so important today that since our growth of our GNP is so heavily determined by the exports that we make. We must be able to negotiate beneficial market opening agreements with our trading partners.

Mr. ANTHONY. So, you would say the witnesses that will testify later to members of the committee would like to have it both ways, have a semifast track, but have an ability to modify the agreement. There are witnesses who will say that they are for trade, but they do not want fast-track and they are asking us not to approve fast-track.

What you are basically saying to them and to any of us that might hold that attitude is that if that were the ultimate outcome, all negotiations would just cease and then we would not get what everybody says they really want, and that is a final bilateral agreement with Mexico or a trilateral agreement with Canada, the United States and Mexico?

Ambassador HILLS. That is exactly right.

Mr. ANTHONY. Do you think that is the real practical world of trade negotiation?

Ambassador HILLS. That is absolutely the practical world of trade negotiation. And the practical world of politics is that those who are arguing against our fast-track really do not like the agreements that are on the horizon. To them I say do not take away our negotiating authority, vote against the agreement when we bring it home. I would rather you take a look when we bring it home and give me a chance to persuade you that it is in the national interest, but you will have an opportunity to vote the agreement down when we complete the process. Do not take away our negotiating authority.

Mr. ANTHONY. I assume by having this hearing and future hearings and having private executive meetings to let us extend the viewpoints of our constituents directly to you, that you would continue to take those viewpoints into consideration in any final agreement before it is brought back for the vote?

Ambassador HILLS. Absolutely. We listened very, very carefully to Congress and to more than a thousand private sector advisors. As you know, in the Uruguay round, and in Brussels we had 55 congressional staff members with us, and 7 congressional leaders with us. We regard ourselves as in a real partnership, a constructive partnership with Congress, and we mean to keep it that way. But we do have to be the negotiator.

Mr. ANTHONY. In that regard, a final question, Mr. Chairman, and thank you for your courtesy of the time.

Mr. Berman will testify later. On page 8 of his testimony, he says,

> Free trade permitting an entire sectoral exclusion from national treatment and nondiscrimination on the basis of culture is unacceptable and must be resisted. The so-called cultural exemption provision in the Canada Free-Trade Agreement cannot be extended to the trilateral agreement.

Ambassador Hills, I know that you personally have stood firm against what I consider to be transparent barriers. The cultural industry exception appears to me to be a trade barrier to assist struggling movie, record, and book producers. I do not know if you agree with that synopsis, but at least you have resisted efforts against TV quotas in the EC and France and supported efforts to keep a cultural exception out of GATT's services agreement. So, some place in there you agree.

However, we ended up with a cultural industry exception in the free trade treaty with Canada. I guess my bottom line question is, will you extend that same commitment to the Mexican negotiations and try to keep this out?

Ambassador HILLS. We do not believe in cultural exceptions. We just think that is another name for protectionism, whether it is applied to broadcast directives or books. We did not agree to it, by the way, in the Canadian Free Trade Agreement. We agreed to disagree. They agreed to maintain them and we agreed to have a right to take action against them where they appeared, and we are still debating the issue. We do not favor cultural exceptions or exemptions, because we regard them as protectionist.

Mr. ANTHONY. Well, it is one of our very bright spots in the export-import area and I want to encourage you to hang in there tight in that particular area. I think it is very important, and I thank you for your testimony.

I would like to close my comments, Mr. Chairman, by also saying something that Mr. Rangel and other members have said. I have a great deal of respect and confidence in your ability, having seen you operate first-hand and in the way you have dealt with us. I think the public needs to know that our trade negotiator is well respected on Capitol Hill and that we think she is eminently qualified to carry out this difficult task. I look forward to working with you in this area.

Thank you.

Ambassador HILLS. Thank you very much.

Chairman GIBBONS. Mr. Dorgan.

Mr. DORGAN. Mr. Chairman, thank you very much.

The question has never been and will never be the competence of the Ambassador. I think everyone understands the considerable skills that she has. But my friend from Arkansas will understand that there are some differences of philosophy about what our goals ought to be in trade talks, and let me discuss just for a minute a couple of those differences, because I think it is important with respect to the question whether we extend fast-track authority.

The statement by Mr. Anthony is correct, that the ticking clock with respect to the United States-Mexico FTA is an irrelevant clock, because if we do not extend fast-track authority for the Uruguay round, if and when you ask for it—and my understanding is that will happen—if we do not extend it, then you are not going to

be able to negotiate a free-trade agreement with Mexico using fast trade. Is that not the case?

Ambassador HILLS. That is the case.

Mr. DORGAN. So, the real issue here is will we ultimately extend fast-track authority for the Uruguay round.

Ambassador HILLS. I hope you will. You do have a chance to negate our negotiations in the Mexican Free Trade Agreement, because we did give this committee 60 legislative days notice in which to tell us whether to negotiate or not to negotiate.

Mr. DORGAN. I understand that, but my point is that is not likely to be responded to in any fashion, because we understand that the response we have to the fast-track authority extension for the Uruguay round determines what will happen with respect to the Mexico-United States Free Trade Agreement.

Ambassador HILLS. That is incorrect, and maybe I was imprecise.

Mr. DORGAN. All right.

Ambassador HILLS. You have three chance to deal with Mexico: One, during the 60 legislative days, you could have a resolution from this committee telling us not to proceed with the Mexican Free-Trade Agreement. That time will run in about a week, and it is by statute a determination by the Ways and Means Committee telling us not to go forward.

Mr. DORGAN. Let's assume we do nothing.

Ambassador HILLS. Separate and distinct from that is our fast-track authority. The system is the same for all agreements. We are going to request the fast-track authority, because we must negotiate market openings for our entrepreneurs. If you vote for a resolution to take away our fast-track authority, then, of course, it will affect all of the agreements that we have on the horizon. The Uruguay round is one, and the Mexican Free Trade Agreement is another.

Then, you have a third chance when you can show dissatisfaction and vote against what the administration has done. That is when we present the agreement in final form, and you may vote it down.

Mr. DORGAN. I understand that. I think we agree with respect to procedure. I have had some experience on this question of voting on what is presented to us with the United States-Canada Free Trade Agreement, and I have discovered that often what is presented is the basic agreement, but there are some things that we have left to negotiate later, there are some things that are not quite determined, and then we discover later it is very hard to correct and very hard to get some attention on them, and I will discuss those in just a second.

Because the question of whether you are ultimately going to be able to negotiate a Mexico-United States Free Trade Agreement hinges on the question of whether we extend fast-track authority for the Uruguay round upon your request, I would like talk to you just for a second about that basic challenge.

You know, it seems to me that maybe our responsibility is to finish the job we are working on, before we run out and look for new jobs. We have got a tremendous job ahead of us in trying to deal with market barriers.

Here is a 174-page booklet put out by USDA that represents the barriers to agricultural trade around the world, and you well understand what those barriers are.

It restricts our ability to sell in foreign markets, even as we open our arms, by and large, and say bring us your VCR's and cars, we are a wonderful marketplace. None of us or at least very few of us would believe that the remedy is to close our markets as a response to that. The remedy is to force open these markets.

You are attempting to do part of that in the Uruguay round, but in the Uruguay round you have had three goals: One is to deal with export subsidies; the other is market access; and the third is internal domestic support programs.

I come from a State that is economically on the ropes. Farmers are flat on their backs. I do not know if you have been out there recently, but it is not true with farmers who raise peanuts and cotton and rice and tobacco and some other commodities, but in the Farm Belt sector that raises wheat and feed grains, they are flat on their backs. Prices have collapsed and there is no sign of strengthening, and they look at me and ask me questions at meetings about, the GATT negotiations, and aks why people are trying to negotiate lower farm prices, take away our support prices, even as market prices have collapsed.

You indicate that what we are talking about here is the long-run. You know, Cain said in the long run we are all dead. Farmers farm every day, they eat every day, they produce every year, they are trying to find money to put the crops in this spring, and they see a goal with respect to the Uruguay round and in internal domestic support prices that seems inconsistent with what our long-term goals ought to be, if we care about preserving a network of family farms.

Having said all of that, I guess my question is why could you not embark on a set of goals in the Uruguay round that will negotiate away market barriers, so that we have broader access. The administration's goal is to negotiate away export credits and export subsidies, and you would have my full support. I think that makes a lot of sense.

But when you rush off and say now let us additionally negotiate away internal domestic support price programs, we look at that as a goal and say, well, we do not support that. I do not support that. Why should I extend authority for you to go and do that?

Ambassador HILLS. First of all, what we are trying to negotiate away with respect to the internal supports are those programs that distort trade. You can vote for programs, as you have, that support conservation assistance for farmers, acreage set-aside, but those do not distort trade, because they are not hooked to producing a particular crop.

Second, you made the comment that we are negotiating lower farm prices. Nothing could be further from the truth. If we are successful in the Uruguay round, in fact, farm prices will go up. Farm prices are depressed, because of Government-induced overproduction in particular sectors.

If I give you a check to grow a field of wheat, you most assuredly are not going to grow corn. As a result we get mountains and mountains of wheat that are then dumped or flooded onto the

world market. You say just deal with the dumping, just deal with the export subsidy, but we still have that mountain of overproduction. Either you burn it or you sell it at a lower and lower and lower price.

Our export subsidy program does not benefit every market sale that we make. To the contrary. Your farmers are on their back, because of the trade distortions that occur worldwide, and particularly in Europe, with internal supports that induce production that the world does not need, and it is killing not only the farmers in your district, but the farmers in the developing world, where all they have to sell is agriculture.

So, we must deal with all three areas, but I think we can deal with them in a way that benefits your farmers, because they are more competitive than the majority of farmers around the world.

Mr. DORGAN. But you cannot be competitive and survive, if ultimately the price for the product is below the cost of production. Frankly, events in the last couple of years do not support your contention that if somehow carryover stocks fall, prices rise. It did not happen with Durum. Carryover stocks were at an enormous low. Historically, carryover stocks were far depressed. What happened to prices? Prices further collapsed.

Farmers out there have no faith in this theory about the free market, because the free market does not exist and will not exist, and they certainly do not benefit from a reduction of carryover stocks, at least they have not, both in winter wheat and in Durum, in recent years.

Ambassador HILLS. The wheat farmers in this country have been destroyed by the internal supports based on the two-price system used by Europe that are absolutely enormous, and the export subsidies. Those two programs have hurt our farmers more than anything else. I do believe that the EC is beginning to reform its internal support program, and that gives us an opportunity.

Mr. DORGAN. If you negotiated away their export subsidy program, what would they have to do to assume responsibility for their overproduction? Would not negotiating away the export subsidy solve the problem?

Ambassador HILLS. They really go hand-in-hand. The way their farm programs are constructed is that the farm support is priced based and it is based upon growing particular commodities, and grains are enormously benefited.

You mentioned how can you make a sale, if you have to sell it below cost. The program that the EC has with its two-price system and its European preference, coupled with the export subsidy drives prices below cost. But it takes the two to make their program and that is what needs to be addressed.

Mr. DORGAN. I understand that. I understand the program. I am asking you this: If you negotiated away export subsidies, what would the Europeans do with their surplus?

Ambassador HILLS. I suspect we would have a large amount of dumping or at pricing——

Mr. DORGAN. Well, you negotiate away antidumping. You deal with dumping and export subsidies, export credits that we are now engaged in all across the world that, I agree, are largely unproductive.

In negotiating an agreement on those, what incentive is remaining in Europe to overproduce? That is what I am trying to understand.

Ambassador HILLS. Governments are so interfering with the market choices and so artificially inducing the growth of a particular crop, it is just so much more sensible to let the farmer choose the crop. If the sovereign state wants to pay the farmer, we have no objection. We do not believe our wheat farmers can compete, if farmers throughout Europe are induced to grow wheat instead of choosing to grow other products. So, there will be depressed prices by reason of overproduction, as long as they are induced to grow that particular product. In order to get the government check, they must grow the product designated, and that is very distorting to world markets.

Mr. DORGAN. But if that overproduction is not able to be dumped on the market——

Ambassador HILLS. Not if you are going to burn it.

Mr. DORGAN. My point is that if you negotiate away export subsidies, you have solved the problem largely. Yet, you are intent on somehow trying to pursue a strategy that negotiates away internal domestic support price programs and, frankly, many countries of the world are not going to do that, and I think most people know it.

Mr. MCGRATH. Would the gentleman yield?

Mr. DORGAN. I would be happy to yield.

Mr. MCGRATH. I thank the gentleman.

To some extent, you are absolutely correct, if they could not dump it on the world, then they keep it and where would market access for our goods be? We would not have any market access.

Mr. DORGAN. Well, my point about finishing a job before you look for a new one is in this book. You know, we have got a situation in this country where we have had a trade agenda that largely ignores the impediments to market access here, and I would like us to be off working on this in a serious way, rather than trying to figure out new jobs to assume.

Frankly, American producers scratch their heads and wonder who is standing up for them. There is a kind of trade speak these days that anybody that is not for some sort of unlimited free-trade agenda is a protectionist. You know, other countries have an agenda of deciding what parts of their economy do they desire to retain, what are essential key parts of their economy that they are going to stand up for, and I do not know that we have any of that in this country. Your philosophy seems to be, "Let's just take everything down and let happen what will happen." We will not have many family farmers left, frankly.

You are talking about prices rebounding. You are talking about 10 years from now prices rebounding, and farmers will be flat on their back, raising wheat and selling it for a price well below the cost of production, as they are now doing, and going broke in record numbers. The administration will say, "Yes, but isn't it wonderful, we are more competitive." We are more competitive, and we are going broke. Of what great value is that to people who make a living on the farm? I just do not understand that philosophy.

Ambassador HILLS. That would not be my argument. When you talk about the overproduction of a commodity that has been induced by government action, something will be done with it, it is not just dumped and it is not just subsidized, it depresses world markets, because of the oversupply If they are selling it at a low price at home, that is the low price that it is going on the world market. It is, after all, a commodity.

We think that we can work with your farmers so that they are better off. I would like the opportunity to talk to you about the strategy that we have in agriculture, because I think you would agree with it, if I could just be a little more articulate.

Mr. DORGAN. Well, you are not inarticulate, Ambassador. We probably have a philosophical disagreement. I would very much like to talk with you.

Let me finally, Mr. Chairman, tell you a quick story about a young woman from Bowman, ND, who married somebody from Alberta, Canada, and they are wonderful neighbors of ours. She went back to their farm in Bowman, ND, and her mother sent back 3 bushels, in bushel bags of cleaned wheat, because she likes to bake whole wheat bread, and so she was going to grind it up there in Canada and make herself some whole wheat bread.

While millions of bushels cross the Canadian border coming south of Durum since the United States-Canada Free Trade Agreement, she was stopped at the border and asked if she had an import license for the 3 bushels of wheat. Of course, she did not, because you cannot get an import license to put American wheat into Canada, so that 3 bushels is laying on the American ground, because you cannot take 3 bushels of wheat to bake whole wheat bread in Canada.

That is what we are left with in the United States-Canada Free Trade Agreement, and many of us feel that when you negotiate these things, there is a tradeoff, and we think that in some respects agricultural interests get traded off far too often. That is why when you say trust me, I will negotiate and come back and you will have a shot at it, I say yes, we do, but it is an up-and-down, yes or no shot, and at that point we cannot very well affect the goals and the strategies that you employ to reach a result that we think is positive for our producers.

I would like, obviously, to spend more time visiting with you. We probably have the same interests in mind for this country. We want expansion, opportunity, jobs, growth, and market access. But I have to tell you, representing the most rural State in the Nation and seeing farmers go broke in record numbers, I think with a combination of policies both in the farm bill, which I did not support, and I think also in trade strategy, that we have got to do something substantially different than we are now doing, to see if we cannot maintain a network of family farms in this country's future, which I think is important for this country.

Ambassador Hills, thank you very much for your time.

Chairman GIBBONS. Mr. Levin.

Mr. LEVIN. Thank you very much, Mr. Chairman.

Mr. Dorgan is very right, this is not a question of the talent of our negotiator, and I think you know that, Carla, and I enjoy the opportunity to work with you.

Mr. Chairman, I ask that my opening statement be placed in the record.

Chairman GIBBONS. Without objection, it is so ordered.

[The statement follows:]

STATEMENT OF HON. SANDER LEVIN

As we move through the 90's, major questions smolder beneath the surface about America's economic position in the world.

Are we in a period of basic economic strength, or serious decline?

Has there been significant erosion of our industrial base? If so, does it matter? And if it does, can it be turned around, or would any cure be worse than the ailment itself?

Over the past decade, the executive branch and many of the other opinion makers in this country have answered in unison: The status quo is basically the best approach—the market will straighten things out.

This reaction reflects the view that there has been no basic decline overall; as for the decline of specific industrial sectors, some have argued that it doesn't matter much, that we are in a post-industrial period or merely adjusting from post-war American economic dominance; some have said all of this is just a result of the operation of the "comparative advantage"; others suggest that American industries were merely being forced to become more competitive.

Whatever these differences, there was agreement in these ranks that the solution to these problems should not call for changes in the operation of the American style of the free market; if other nations had a different brand of capitalism, they would ultimately lose out to the U.S. as it pursued its superior brand.

When the U.S.-Canada Free Trade Agreement was negotiated, there was scant analysis of the long-term impact the agreement would have on specific sectors. When pressed in this regard about the auto sector, U.S. negotiators settled for a solution that made into law the side letter to the Auto Pact under which Canada tilted the market through content requirements, building up its own auto and auto parts industry over several decades and a substantial surplus with the U.S. in recent years; when several of us urged that there be no final agreement until there was a satisfactory rule of origin governing American and Canadian content, the final response was that it could be left for post-FTA discussions. Since then we have seen the same Canadian resistance as before the final deal was struck.

With the U.S.-Canadian FTA, there was at play a considerable amount of horse sense—that overall it seemed more likely than not that an agreement eliminating barriers between two economies with similar structures would lead to more trade for both with a somewhat even balance. In the end, that convinced a number of us to vote for the agreement despite misgivings in certain sectors.

With the persistence of a major U.S. trade deficit and deepening difficulties faced by major U.S. industries, coupled with the fact that the Mexican economy does not share many of the structures that were common to the economies of the United States and Canada, it would sell America short this time around to rely heavily on horse sense and fail to ask the key questions about the impact of a U.S.-Mexico FTA.

The auto-auto parts industry is one example. I use it because it is crucial and I have some working knowledge of it.

It is instructive to look at the ITC report on the economic impact of a U.S.-Mexico agreement. It points out that auto manufacturing increased in Mexico by 88 percent between 1986–89, in substantial measure because of the Maquiladora structure. It also notes that the auto parts industry is "rapidly expanding at an annual rate of 19%," mostly through U.S. investments in Maquiladora plants.

Calculating the potential impact of a U.S./Canada-Mexican FTA, the FTC report concludes that "the most important variable, the competitive strategies of the Big 3 auto makers, is unknown."

The report also concludes that the "potential exists for the Mexico auto industry, with its relatively low wages and abundant labor supply, to become an integral part of the North American automotive sector."

As to the likelihood that third countries will use Mexico as a base of operations, the report concludes that "Japanese firms could well have an economic incentive to export autos from Mexico to the United States."

The ITC report underscores the need for us to dig more deeply.

Equally troubling is the ITC's conclusion that "unskilled workers in the United States would suffer a slight decline in real income" as a result of an FTA. Nowhere

does the report define "unskilled worker" or indicate how many workers would suffer such a decline.

Nor is there adequate discussion of the impact the elimination of the 25 percent U.S. tariff on light trucks would have on auto company decisions to shift production from the United States to Mexico.

The report concludes that the United States would experience a small net economic benefit from a U.S./Canada-Mexico trade agreement, at least in the foreseeable future.

But that really fails to confront the basic issue. The health of an economy is not simply a bookeeping exercise; it depends on the health of many of its key components.

We cannot expect final answers to key questions before negotiations begin on an FTA. But surely there can be agreement going into negotiations on what the relevant questions are; how the answers can be secured; and how comprehensive they must be.

It is within this spirit that I approach this hearing. We should ask salient questions before, not after the negotiations. Certainly the proponents of any proposal—especially one that would be handled on a fast-track basis that offers Congress only the options of saying yes or no—have the burden of proof. They cannot meet it simply by unsupported references to billions or trillions in trade, or vague econometric models, or statements of articles of faith about expanded trade.

It would be strange indeed if it were considered somehow inappropriate to ask what's in a proposed agreement for America—not in the spirit of insular isolation, but quite the opposite, with an activist internationalism that tries to keep in mind America's role in an increasingly interdependent world.

Mr. LEVIN. I think Mr. Dorgan is also right that there is some basic underlying economic issues here that have been smoldering beneath the surface, as I mentioned in my opening statement, questions like are we in a period of economic strength or serious decline? In terms of our industrial base, as distinguished from our agricultural base, if there has been significant erosion, does it really matter? Even if it matters, could we turn it around, or would the cure be worse than the ailment, in any case?

I think during this last decade, the executive branch and a lot of opinion makers not all have answered in unison the status quo, in terms of American industries' basically best approach, rather the market is going to straighten out any problem.

So, when you talk about specific industries, you hear back views like this, either it does not matter much or I have heard we are in a postindustrial period, or that we are just naturally adjusting from World War II American economic dominance, there had to be a decline, or this is just the operation of principles of comparative advantage, or it is just a process of American industries being forced to become more competitive.

That view I think dominated our approach to United States-Canada, at least that I saw, and they were never produced, as far as I know, some real analyses of the long-term impacts of such an agreement on specific sectors. What was really at play more than anything else, I think, was kind of a horse sense, that when you had two economies more or less built along the same lines, that if you tore down the barriers, it would be better for both. Partly because of that horse sense, I think others voted for the agreement, even though we had questions about specific sectors, including the auto sector, where I think the Canadians over the decades had done us in. It was our fault for letting them do so.

With United States-Mexico, I think we are at a different juncture. First of all, the trade deficit persists. Mr. McGrath says it is only $100 billion. That is a huge deficit. Some of the major indus-

tries in the United States have deepening difficulties, and we are talking about two economies or three economies that are quite different, United States-Canada on the one hand, and Mexico on the other.

I want to ask you a few questions about one industry, and I do so within a spirit that I think it would really sell America short this time around, to just rely heavily on horse sense and not to ask some key questions.

I think, Ambassador, that we ought to ask the questions before and not after the negotiations. Even if we cannot get detailed answers in every case, it seems to me that we can, before we go into negotiations, have some agreement between the two branches on what are the relevant questions, how can we secure the answers and how comprehensive must they be, and I think, in a word, the burden is on the proponents.

We are going to get just a yes or no vote, and so those who propose an agreement under such a procedure I think have the burden in terms of moving forward, and I do not think we can just be satisfied with answers that are in generalized billions in trade and vague econometric models or references, as you have made, to transitions, because the question becomes transition to what.

So, let us look, if we might, at the ITC report as it relates to the auto sector. I take it that it obviously affects the Midwest. I know that you could take other sectors. In just a few quotes from the ITC report, and then I want to ask you a few questions. There will not be time for most of them.

One reference in the ITC report, "Auto manufacturing increased in Mexico by 88 percent between 1986 and 1989, and most of that was because of the maquiladora structure."

A second point, "The auto parts industry is rapidly expanding at an annual rate of 19 percent, and mostly because of U.S. investment in maquiladora plants."

Third, the reference in the ITC report that "the most important variable, the competitive strategies of the Big 3 auto makers is unknown."

Fourth, "The potential exists for the Mexican auto industry, with its relatively low wages and abundant labor supply, to become an integral part of the North American auto sector," so conjuring up a notion of essentially having a single sector, Canada, the United States and Mexico. Then a later reference to "Japanese firms could well have an economic incentive to export autos from Mexico to the United States."

They add up all of this to say, "There is an uncertain effect on autos and auto parts." And they conclude, "Unskilled workers in the United States would suffer a slight decline in real income as a result of the FTA."

We will have a chance to talk about some of these and some other questions later on.

The reference to real income for unskilled workers, do you know, has the FTC told you what their definition of "unskilled worker" is?

Ambassador HILLS. I do not have their definition at my fingertips. I know what I think of. There must be a definition in their

report. You went through your assertions. I have the book with me and I have read it, and there are a lot of qualifiers.

For example, the effects upon the auto industry, they say it could go either way, positive or negative. I would just point out to you that in this report, they assume that the borders are open tomorrow, there is no transition, no time for adjustment, and I think that affects the manner in which a market opening would work in this country.

I am prepared to deal with the points that you have made. I would just like the opportunity to read more fully from the report, because there were in most instances some qualifiers that I think are relevant.

Mr. LEVIN. I am not sure how you want to proceed, but let me ask you: In terms of the impact on the auto industry, have you done any econometric studies of your own on the likely impact on the auto industry? When I say "auto," I mean auto and auto parts.

Ambassador HILLS. Well, the Clopper-Allman study that was commissioned by the Department of Labor deals with the auto sector among others. It picked out 55 sectors, and autos was one. There are quite a number of studies that I can list that are ongoing. As you know, it does not necessarily come out of our budget, because we are a very tiny agency, but I can refer you to at least 30 studies. The studies take various approaches. We are monitoring and commenting on them.

Indeed, I would have to say that it was our chief economist, Dr. David Walters, who found an error in the Clopper-Allman study, and so an errata sheet will now accompany that report. That sheet is very constructive, showing what the 10-year employment changes would be in those 55 sectors. But it does not go directly from 1989 to the year 2000. It goes through stages, and I think it is instructive to look at those stages, 1989, 1990, 1991, 1993, 1995, and then the year 2000. When we look at motor vehicles, we look at the employment, and that, by the way, is another issue that I think we should focus on.

Our manufacturing sector is not deteriorating. It is stronger today than it was a decade ago. It is at the strongest point it has been since World War II. It is contributing 23-plus percent to our GNP. What you may be referring to is employment in the manufacturing sector.

Mr. LEVIN. No, no.

Ambassador HILLS. Employment in manufacturing is relatively flat, although it is performing at a higher level today than in previous years. It is relatively flat, as compared to several other employment sectors.

Mr. LEVIN. I talked with the reporter who wrote the New York Times story. There was not a single report. Her article was based on extrapolations from several documents, and you are going to further hear, both in terms of questions and otherwise, from us regarding such claims. That is overall.

Let us take the auto sector. Take light trucks. There is now a 25-percent duty on light trucks. What if a study showed that a free-trade agreement with Mexico might well—none of these are going to say for sure—result in a substantial shift, because the tariff

would be gone, of light truck production to Mexico? Now, is that of any concern?

Ambassador HILLS. Yes, we would be concerned about each sector and we will look at each sector. You are right, the light trucks are protected by a 25-percent tariff, whereas, autos have only a 2.5-percent tariff, so there is a different level of protection. In some of these studies, they make that assumption when they are looking at the overall sector.

Mr. LEVIN. What you are saying is that you are anxious to sit down and have discussions with this committee and otherwise sector-by-sector relating to the key sectors in this country?

Ambassador HILLS. First of all, I will share with you the data that I have. The study that I think is probably most relevant to your interest is the Clopper-Allman study that shows, for example, in motor vehicles 834,000 jobs in 1989, 823,000 in 1990, and I will just skip over. That sector is going to lose 32,000 jobs, regardless of whether there is a free trade agreement in Mexico or any kind of an agreement. That is the projection that the Clopper-Allman study makes.

However, if we have a free trade agreement, we will gain about 5,000 jobs, so that the free trade agreement has a very small plus effect on the auto sector.

Mr. LEVIN. OK. That is one study.

Ambassador HILLS. In the New York Times article, I only referred to that, because I thought perhaps several members had read it. In fact, we have the basic underlying data that the reporter referred to. That is the Bureau of Economic Analysis. The underlying analysis for that report will show you that the manufacturing sector has grown stronger, is stronger today than it was a decade ago; it is at its strongest point since World War II.

Mr. LEVIN. Is the auto sector in America stronger today than it was 10 years ago?

Ambassador HILLS. Well, it certainly has more worldwide competition. Maybe you will define what you mean by "stronger."

Mr. LEVIN. You used the term. How about the American electronics industry?

Ambassador HILLS. You want to know what is going to happen in that sector?

Mr. LEVIN. Is it stronger today than it was 10 years ago?

Ambassador HILLS. Ten years ago would have been 1981, and there have been a lot of externalities that have affected those sectors that you cannot blame on whether there will be a tariff or a nontariff barrier with Mexico, but, rather, on global competitive pressures.

For example, in the auto industry, the automobile sector has been far more vulnerable to competition from East Asia than it ever has been from Mexico, and yet the Big 3, plus several Japanese concerns, have investments in Mexico. In fact, our capacity to have assembly in Mexico has tended to make us more competitive vis-a-vis the rest of the world, and particularly Asia, than were we not to have had them. So I guess I would say Mexico has been and could be even a greater benefit to our auto industry.

Mr. LEVIN. Under that motto, more and more production is done in Mexico, and——

Ambassador HILLS. I am not willing to stipulate——

Mr. LEVIN. That is the only way Mexico, in addition to being an export market, I do not think you are saying that it is going to be a strengthening tool, because of exports.

Ambassador HILLS. Oh, yes.

Mr. LEVIN. That may be part of it, but within your language, within your mind-set, when you conjure up East Asia, et cetera, essentially you are drawing the analogies that some have, that Mexico would be to the United States what Thailand might be to Japan.

Ambassador HILLS. That is one factor, but the issue is full of many factors, and it is complex and we should look at all of the complexities.

Mr. LEVIN. Let us do that.

Ambassador HILLS. All right.

Mr. LEVIN. Let us do that, and let us in the next days look at all of the studies.

I want to finish with a reference to testimony being given on the Senate side today by Dr. Dornbush, who says, "Work standards and environmental standards can obviously not become part of a free-trade agreement." Do you agree with that?

Ambassador HILLS. I do not know whether he is suggesting that it is physically impossible or that it is not traditionally undertaken. The fact of the matter is that those issues are not traditionally covered in a trade agreement, although they have, obviously, an effect upon trade. What we have tried to do is to listen very carefully to the comments on these various issues and to figure out a way to deal with the issue in the most effective manner.

It may be that for one issue it is better to put it in the trade agreement; for another in the preamble; in a third in a separate document that could be handled by the experts that have far greater capacity to deal with the issue than a trade negotiator. So, we want to explore the basic question. What is the best means of dealing with these social and tangential issues that affect trade.

Mr. LEVIN. Tangential? Is work standard tangential to a trade agreement?

Ambassador HILLS. Well, if you look at a traditional trade agreement, it is not usual that you would deal with another nation's work standards, yet it has an effect on your trade, and so yes, I would say that it was somewhat overlapping, but not squarely within what we traditionally dream of as a trade agreement.

This administration feels just as strongly as you do about the environment, the drug issue, the immigration issue, and wants to deal with them effectively. We have some binational mechanisms in place. How extraordinary it would be for me to try to replace Bill Reilly, who is a superb Administrator of the Environmental Protection Agency, or to try to take over an effort that has been admirably launched by Richard Thornburgh, our Attorney General, with his counterpart in Mexico.

So, I want to share with you what is currently being done, and then to get your views on whether more or different things might be done that would handle the concern that you obviously have for some of these issues.

Mr. LEVIN. Well, I would never call labor work standards that impact on industry tangential, but we will be talking further on many, many things.

Thank you, Mr. Chairman.

Chairman GIBBONS. Mr. Moody.

Mr. MOODY. Thank you, Mr. Chairman.

Ms. Hills, you have been extremely patient, and thank you for sitting through this. I appreciate your testimony very much and your willingness to interact with us, not only today but in the future.

You brought up one of our Members a bit short, by saying he acted as though or spoke as though trade was a zero sum game, when it is not. We all know that. You would also agree that there are winners and losers. Is it not a possibly negative sum game for some individuals or some sectors or some groupings?

Ambassador HILLS. Actually, the studies show that the losing effects are very, very small, and we believe, with a proper phasein, that they may even be smaller. We are very cognizant of the fact that, over the past two decades, we have had a growth in our work force of roughly 2-plus percent, and that as we face the decade of the 1990's, we are going to have that growth cut in half. It will only be about 1 percent. It may very well be that the turnover rate in some of these sectors is such that the effect will be very, very small indeed.

So, all I am saying to you is that, based upon the studies that have been conducted so far, if you figure in a transition period and do not just open up the market and, in effect, fall off the cliff tomorrow, the effects will be very gentle.

Mr. MOODY. Well, there are a lot of examples. For example, in the Canadian Free Trade Agreement, beer, which is produced in my area of the country, did not get any consideration at all, and we are all happy that wine was given great consideration. Beer was not the winner, and wine was.

There are winners and losers in this agreement. I do not know of any transition rule that is going to help sell Wisconsin or St. Louis beer in Canada. Maybe there are some, but that is not my understanding. That is not my main point. My main point is that some of the losers can be quite substantial.

This report here, "The Likely Impacts of the U.S. Free Trade Agreement with Mexico," on page 2-6, says, "Unskilled workers in the United States will suffer a slight decline in real income." This is at the end of chapter 2, the first paragraph on that page, chapter 2, page 6: "Unskilled workers in the United States would suffer a slight decline in real income."

Ambassador HILLS. May I just say that assumes that our market openings would occur on day 1, and the question is what sort of a transition period can we put in place that would negate that statement.

Mr. MOODY. The reason I bring it up is I have companion testimony from Mr. Jeff Faux, president of the Economic Policy Institute. He points out that, according to the ITC definition, this would refer to over 70 percent of all U.S. workers. Now, if there is going to be a drop in income of 70 percent of U.S. workers—it all depends on who controls the definitions, I understand—but if that is the

correct definition, then we are not talking about a mere transition problem, we are talking about something much deeper and something much more serious.

Ambassador HILLS. Let us look at the employment effect. We are looking at the production of jobs over the next decade by about 18 million. That is what the studies show. If we have a free trade agreement, we will get 66,000 more.

Now, I am not here to tell you that the effect is going to be that dramatic, but rather, that we will be holding our own, building better jobs, and overall creating jobs. So, the free trade agreement means more wealth and more jobs, and we ought not to look at the gains that Mexico will have and think that they take them away from us.

Mr. MOODY. I agree. I am not making that argument at all. I agree with you, it is not a zero sum game. I would point out that we are in a plus-plus game, trade can be a plus-plus game. Within any given sectors within a nation, there can be losers, and what struck me is that Mr. Faux is right, the definition of a slight drop in income among unskilled workers would cover 70 percent of the U.S. work force, with 30 percent being skilled and 70 percent being less than fully skilled. That is a very serious statement and I do not know whether you can today—you do not have a prepared response and may not have seen his statement, but I would like to have an answer and maybe someone could get back to me on this.

Ambassador HILLS. I would be delighted to get back to you. I have not seen the gentleman's testimony and will obviously be very interested in all testimony that is given today and any other day. My understanding is that the definition of an unskilled worker is based upon the level of pay, and that where there is a projection of slightly lower wages, it may be taking a static analysis, as opposed to a dynamic analysis, but I just have to look at the report and have our economists evaluate it.

Mr. MOODY. Thank you. I will send this to you before you leave the room.

Ambassador HILLS. Thank you.

[The following was subsequently received.]

The finding of a slight decline in the real income of lower skilled workers was reported on a preliminary basis in the ITC's report to the House Ways and Means Committee entitled, "The Likely Impact on the United States of a Free Trade Agreement with Mexico" (February 1991). The ITC supplemented its report in a letter of April 4, 1991 from Acting ITC Chairman Anne E. Brunsdale to Chairman Rostenkowski (copy attached). The letter updated the preliminary finding with respect to lower wage workers on the basis of newly available information.

The original modeling effort by the ITC had used a "best-guess" estimate of the degree of substitutability of Mexican imports for U.S.-produced product (elasticity of import substitution). The new information consisted of actual empirical estimates of the elasticity of import substitution. When the model was run using the empirically estimated elasticities, the results for the real income of lower skilled workers were altered from what the ITC's original report characterized as slight decline to what Acting Chairman Brunsdale's letter characterized as an "indiscernible increase in real income." Details are provided in Acting Chairman Brunsdale's letter and its attachments.

We have not been able to verify the statement in Mr. Faux's testimony to the effect that the ITC's definition of lower skilled workers includes 70 percent of the U.S. work force. To the best of our knowledge, the ITC has not made public how it defined lower and higher skilled workers for the purposes of its modeling exercise. We do not know upon what other source Mr. Faux might have based his statement. In any event, the issue of how the ITC defined its category of low-skilled workers would seem less important in light its revised findings of a positive effect on the real incomes of both lower and higher skilled U.S. workers as a result of free trade with Mexico.

CHAIRMAN

UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, D.C. 20436

April 4, 1991

The Honorable Dan Rostenkowski
Chairman, Committee on Ways and Means
U.S. House of Representatives
1102 Longworth House Office Building
Washington DC 20515

Re: ITC Inv. No. 332-297, The Likely Impact on the United States of a Free Trade Agreement with Mexico.

Dear Mr. Chairman:

In February 1991, the Commission sent the above-referenced report to the Committee on Ways and Means of the U.S. House of Representatives and the Committee on Finance of the U.S. Senate. This report, which had been requested by these committees, concluded that on the whole an FTA with Mexico would benefit the U.S. economy, but that given the relative sizes of the two economies, the effects would be small. The report also concluded (Chapter 4) that some U.S. industries would be more affected than others, and that some industries and sectors would benefit from an FTA with Mexico, while others would incur losses.

In its executive summary, the Commission noted that "[p]reliminary analysis indicates that the real income for unskilled workers in the United States is likely to decline slightly, although some plausible scenarios suggest that it could actually increase" (Report at viii). These changes in average real income are not meant to identify the effects on lower-wage workers in particular sectors of the economy or the number of lower-wage workers that would gain or lose.

This result was based on a computable general equilibrium (CGE) model of the United States and Mexican economies, as explained on pages 2-5 and 2-6 of the report and in the attachment to this letter. Because of the short deadline for completing the original report, the model was in preliminary form when we used it to analyze the effects on labor. (The Commission indicated this in our report on page 2-5, footnote 42.) Since then, new information on an input to the model has become available. The Commission believes it appropriate to describe for you the new information and the results of model runs made using this new information.

The CGE model analyzes the interaction of the U.S. and Mexican economies through the sale of goods and services between the two countries. As with many economic models, there are numerous linkages among the various sectors within the U.S. economy and between the U.S. and Mexican economies that have to be estimated and inserted into the model. These estimates are referred to as parameter estimates. While most of the parameters required for the model had already been estimated by economists, the substitutability of Mexican imports with U.S.-produced products in the U.S. market had not. The Commission therefore had to rely on a best-guess estimate of this parameter.

Soon after the Commission issued the report, Dr. John Suomela, the Director of the ITC Office of Economics, informed us that new research on the substitutability of U.S. goods and Mexican imports had become available. Dr. Kenneth Reinert of the ITC had been researching the substitutability of U.S. products and imports from Mexico because he was expanding a computer model for a forthcoming study. In this effort, he had contacted Dr. Clinton Shiells of the Labor Department, an expert in the field. Their collaboration led to an independent research paper now in draft form, which presents estimates of the relevant elasticities of substitution. The Reinert/Shiells results indicate a lower degree of substitutability than we had originally thought.

Dr. Suomela pointed out the potential relevance of the Reinert/Shiells paper by memo to the Commission (copies of which you already have (Attachment I)) and indicated that he would use the research to reexamine the question of the likely impact of a free trade agreement with Mexico on the real income of U.S. workers. We have enclosed a summary of the results of that reexamination (Attachment II), and have sent it as well to the Senate Finance Committee. It shows how incorporating this new information into the CGE model suggests that U.S. lower-wage workers, on average, will experience an indiscernible increase in real income as a result of an FTA with Mexico.

The difficulty inherent in estimation is that we cannot say with absolute certainty precisely what the effect will be -- that is, the actual effect could be a bit larger or a bit smaller than the estimated effect. When the estimated effect is near zero, this may result in the direction of the change in real income moving from negative to positive, or vice versa. However, our overall conclusion is that the effect on average real income will be extremely small.

In conclusion, we place confidence in the result that there will be little if any change in the aggregate real income of lower-wage workers as a result of an FTA with Mexico. Finally, none of the other conclusions in the report, including the industry-specific results, is affected by these new estimates.

We hope this information will help not just your committee, but others as well, in their continuing work on this important subject.

Very Truly Yours,

Anne Brunsdale

Anne E. Brunsdale
Acting Chairman

Attachments

April 3, 1991
U.S./Mexico FTA
Attachment /

The attached table provides the results of new runs of the CGE model that underlies certain conclusions in the above report. Because more precise and reliable estimates of elasticities of substitution used in the model have become available, the results are slightly different from those produced earlier. The same adjective, however, can be used to describe them: the effect of the proposed FTA on real wages would be "slight."

The Commission's U.S./Mexico FTA report stated: "Preliminary analysis indicates that the real income for unskilled workers in the United States is likely to decline slightly, although some plausible scenarios suggest that it could actually increase" (page viii). The report did not, however, indicate how "slight" the effect would be or how "plausible" the scenarios were.

"Slight" was not defined because the Commission was asked to provide a qualitative assessment, not a quantitative one. Slight meant a small fraction of one percent. Indeed, earlier runs of the model never achieved results that were over one tenth of one percent. The attached table provides current estimates of the effects of an FTA on the wages of lower- and higher-wage workers in the United States. The only estimate of a loss is a mere .002 percent of the average lower-wage workers' income, and this occurs only if the elasticities of substitution are very high.

At a seminar on February 13, Clint Shiells of the Department of Labor presented an independent paper, coauthored with Kenneth Reinert of the ITC, estimating elasticities of substitution for 163 product categories for imports from Mexico and the rest of the world. In this paper, the estimated elasticities appear to be centered around one, and

none of them is greater than two. When these more accurate elasticities are used in the Commission's model, there would be a gain of .011 percent for an average lower-wage worker. This slight change has virtually no economic significance.

Description of a CGE model for analyzing labor migration

The Commission was asked, among other things, to analyze the aggregate impact of an FTA on relative wage levels between the two economies. Such shifts are known to be a critical factor in Mexican labor migration. The model developed by Commission staff to address this issue actually consists of two highly aggregated computable general equilibrium models (CGE models): a model of the U.S. economy and a model of the Mexican economy, with the two models linked together through the prices of traded goods.

To make the calculations doable, all commodities were aggregated into three categories: composite imported goods that are consumed but not produced domestically, goods that are both exported and consumed domestically, and non-traded goods. Goods could be consumed as final goods or intermediate goods. Inputs into production were divided into labor and non-labor components. Because the report focuses on aggregate labor migration, the total labor force was divided into higher and lower-paying jobs. Workers were grouped this way because lower-paying jobs are held by the greater part of the migrant work force.

The bulk of the data that went into the model come from government statistics. These data are aggregated into social accounting matrices, or SAMs. A SAM consists of a traditional input/output table, augmented to include income and expenditure flows of the National Income and Product Accounts (NIPA) between "agents" such as households, governments, and foreign countries that are not ordinarily

included in an input/output matrix. By convention, each individual element of the matrix represents a transfer of money from the column sector or institution to the row sector or "agent." Therefore, each row and corresponding column represents, respectively, the income by source and expenditure by recipient of each industrial sector or "agent."

The U.S./Mexico FTA model contains two SAMs, one each for the United States and Mexico. The data for the U.S. matrix come primarily from a model developed at the Economic Research Service, U.S. Department of Agriculture (USDA), derived from 1986 NIPA data. Commission staff aggregated the 30 industrial sectors of the USDA model into two sectors: traded goods, consisting of agricultural, mining, and manufactured goods; and non-traded goods, consisting of construction, distribution and transportation, finance, and other services.

The SAM for Mexico was developed by the ITC using an input/output table provided by Andrew Feltenstein of the University of Kansas along with supplementary data for the Mexican economy. Professor Feltenstein constructed a Mexican input/output matrix using data from Systema de Cuentas Nacionales de Mexico, the Mexican national accounts data. The Mexican input/output table consists of about 90 industrial sectors, aggregated into traded and non-traded sectors along the same lines described for the U.S. data.

Qualifications of the model

As stated in footnote 42 of the report, the model was in preliminary form when the Commission used it to analyze the effects of the proposed FTA on labor. Normally, CGE models are developed and tested over a period of at least one year. But because the report was required in such a short time, this model was not fully tested. There would have been no model at all if we had not been able to

take advantage of work already done at the Department of Agriculture and by Professor Feltenstein. Nevertheless, the model was sufficiently untested that results might not have been reported if they had strongly disagreed with prior estimates and with other parts of the report.

When the Commission released the U.S./Mexico FTA report, we believed that the results of the model generally supported the conclusions that U.S. and Mexican wages would tend to converge and labor migration would decrease, primarily because Mexican wages would increase, not because U.S. wages would fall. The Commission stated that conclusion in the report, as well as the possibility that on average wages of lower-wage U.S. workers would fall slightly. The Commission qualified the latter statement by saying that it was based on an estimated high elasticity of substitution between imports and U.S. traded goods. If the elasticity of substitution were lower, the report noted that lower-wage U.S. workers would not experience a decline in average real income.

It was not until after the report was published that the Commission became aware that the Reinert/Shiells study was relevant to the report, because it made empirical estimates showing the elasticity of substitution between U.S. and Mexican goods to be much lower than we had assumed were plausible. Using the newly available elasticities in our model, the Commission finds that the average wage would not fall for lower-wage U.S. workers.

The attached table shows the effects of an FTA on real wages, using different combinations of elasticities. Case one in the table now appears to be the most likely scenario. Note that the largest effects on U.S. workers are in hundredths of a percent. The effects of an FTA on the average wage of both lower-wage and higher-wage workers will not be discernible when an FTA is fully phased in. These effects would certainly be lost among the other changes that are continually occurring in our

dynamic economy. Furthermore, none of the other industry-specific results are affected by these new estimates.

The actual number of workers who would gain or lose under the proposed FTA was never an output of the model. The model was simply not designed to determine how many workers might gain or how many might lose from an FTA.

The methodology used in the Reinert/Shiells draft paper is state-of-the-art, and subject to the usual qualifications of empirical estimates. Empirical techniques require compromise, but statistics backing up their estimates are quite respectable.

The paper has been presented in a seminar at the University of Michigan and has been widely distributed in academic circles for review and comment. We are not aware of any fatal criticism of their estimates, and do not think we could improve on them.

Table 1: Higher-Wage:Lower-Wage ratio=2:1
The Sensitivity of Real Wage Effects to Specifications of the Elasticity of Substitution between Mexican and Other Products

	final demand		intermediate demand		U.S. Wages	
	σ_{IM}	σ_{MM}	σ_{IM}	σ_{MM}	Lower-Wage Category	Higher-Wage Category
Scenarios					(percentage changes)	
Case 1:	1.1	2.0	1.1	2.0	.011	.027
Case 2:	1.5	2.0	1.5	2.0	.010	.025
Case 3:	2.0	3.0	2.0	3.0	.009	.023
Case 4:	4.0	5.0	4.0	5.0	.005	.018
Case 5:	5.0	10.0	5.0	10.0	.002	.015
Case 6:	8.0	10.0	8.0	10.0	+.000	.012
Case 7:	10.0	15.0	10.0	15.0	-.002	.010

σ_{IM}: elasticity of substitution between imports and domestic products
σ_{MM}: elasticity of substitution between Mexican and ROW imports

Mr. MOODY. Clearly, trade is a win-win game, if it is handled properly, in a macro sense, but it is important how those wins are divided up. Do you have any econometric models or any models that would be able to give us a notion as to what the division of benefits would be between the three obvious sets of players: owners of companies, the workers of companies, and the consumers?

Typically, consumers are the most obvious beneficiaries of increased trade liberalization. Owners of some companies benefit, owners of other companies do not. Workers of some companies benefit, and workers of other companies do not. Do you have any models which disaggregate these important benefit components between those three people: Owners, workers, and consumers?

For example, if a free trade agreement resulted in the owners of companies receiving 90 percent of the benefit, the consumers 9 percent of the benefit, and the workers 1 or some negligible percent of the benefit, it would not be nearly as attractive as one which spread the benefit more evenly between consumers, owners, and workers. Do you have models—and I know that it will not be the same in every industry, it would depend on market competition within a given industry. Clearly, in a monopolistic or oligopolistic sector, the managers and owners can accrue more percentage of the benefit than the workers or the consumers.

Ambassador HILLS. There are a number of studies and I can certainly share the studies that have been undertaken. They normally do not proceed in that fashion. You look at Mexico, whose economy is roughly 4 percent the size of ours; we grow in a good year about that amount. The projections thus far show that profits and wages will be relatively flat, but climbing. When you add the dynamic gains, then we see that the American worker is moved a notch up the skill level, gets a higher wage, and is more competitive overall, in a global sense. Having access to our southern neighbor, we are both made more competitive, so that we can work in the global marketplace vis-a-vis that competition more effectively.

Mr. MOODY. I understand all of that. That is not my question. The worker can increase his benefit, the consumer can increase and the owner can increase, and if it is done right, all three will. My question is about the relative proportions of the pie, of the increased slices of the pie.

After a decade of pretty much ignoring distributional effects, it is not enough for me to say that all three will benefit, if in fact some will benefit tremendously, while others will benefit just a little tiny bit, and that is what I am asking about.

Ambassador HILLS. I can share with you the studies. I think that they are not going to divide up what the owner of a corporation is benefiting. It will show——

Mr. MOODY. Not a single corporation, I mean macronumbers. I am not asking about individual companies. I am saying do you have econometric models that are sectorwide that show how we can expect those three parties to relatively benefit?

Ambassador HILLS. Let me share with you what we have.

Mr. MOODY. I appreciate that.

Ambassador HILLS. I have got about 30 studies, and they all seem to indicate gains across the board, small gains in the near term, we think good and sufficient gains over the long term.

Mr. MOODY. Fair enough. I just want to alert you to my concern. We can dig into it at a later time. I would be happy to talk with your staff.

My next point I would like to share with you for a minute—and I will not take up a great deal of time—is this one: I discussed earlier in my opening statement about the importance of competitive labor markets and labor having the ability to organize.

When we talk about wage impacts of trade, it is obviously very important whether or not the worker can, in fact, be paid his marginal revenue product, to use a technical term, the value of his productivity, the revenue value of his productivity. If that worker can be paid that value, there is no problem competing with low-wage workers in other countries, because they have lower productivity. American wages can be much higher than Mexican wages or Haitian wages, because the American laborer (*a*) may be better trained, (*b*) might be married with more capital, so the capital-labor ratio produces more labor productivity. That is all fine and good.

I am not someone who says we can never trade with a country that has lower wages because they have lower productivity. If we have higher productivity, we can still trade, we can still compete. In fact, we can beat countries with lower wage scales, because of our productivity and the human capital implicit in our production.

My question is this: If we do not put pressure on countries like Mexico to ensure that their workers can, in fact, be paid their marginal revenue product, in other words, if the wedge between what they are actually producing and their wage, if that wedge is very large because of their inability to organize, Madam Ambassador, then in fact they can harm us substantially.

We have an interest, American workers have an interest in making sure that the workers in Mexico have the right to make sure that their wages, in fact, do match their productivity and are not kept artificially far below their productivity, because of monopolistic practices or inability of the workers themselves to demand a wage equal to their productivity.

That is why I want to raise for you, in a competitive context, not in a humanitarian only context, this question of our insistence that workers have rights to organize in places like Mexico that we trade with and must compete with.

Ambassador HILLS. Mexican workers do have the right to organize. Indeed, the Salinas administration will point to the fact that the rules governing their labor are not too different from the rules governing industrialized countries' labor. There are some differences, but I think that most people would complain about enforcement, rather than the laws themselves.

Mr. MOODY. I guess we have to include enforcement, obviously. The reputation that we hear about is that Mexican labor unions are very weak, are kept weak by a variety of devices. They tend to be company unions that are not serious bargaining elements. I cannot personally speak to that, but I hope you will put that very much on the table, however you deem it best.

I have one final point, and that is the cultural exemption. I would just add my voice to Mr. Berman, who will testify later. There has been testimony in the record and from one of my col-

leagues about being very tough on cultural exemptions with Mexico. I wish we had been tougher with Canada. You say we agreed to disagree, but if we go ahead and sign agreements with those kinds of disagreements in the air and they are free to enforce them as they see them, in fact, we have lost out. So, I hope you would give that a lot of thought and effort to this in your negotiations.

Ambassador HILLS. We certainly will.

Mr. MOODY. Thank you.

Chairman GIBBONS. Mr. Grandy.

Mr. GRANDY. Thank you, Mr. Chairman, and thank you for allowing me to participate in these hearings.

Madam Ambassador, thank you for your patience. That is probably why you are such a good negotiator, so you can sit through all of this conversation, and I will not keep you long. I just want to take a few moments to go back to something that my colleague Mr. Dorgan talked to you about, and that is the nexus between export subsidies and internal subsidies or, perhaps in plainer talk, domestic farm programs and international trade agreements.

I would take a different view than my friend from North Dakota. I think that it is vitally important that we keep Mexico and the GATT talks together, because as I am sure nobody knows better than you, trade is a battle that you fight on many fronts simultaneously, and a success on one front can influence a decision on another front.

I can tell you, and you know because you have testified regularly in front of the committee I usually serve on, the Agriculture Committee, that the purpose of farm programs since 1985 is to make the U.S. producer and processor more competitive, to make him less dependent on the government for his income and more dependent on the marketplace, and to a large degree that has worked, not in all sectors.

Mr. Dorgan, for example, who represents one of the largest wheat producing areas of this country, knows that it is the export enhancement program which has basically kept us export competitive against some of those onerous export subsidies which the Europeans have used. Unless I am mistaken, the export enhancement program was created as a lever against Europe.

That in turn, though, has created a dysfunction between the United States and Australia and some of our Third World trading partners, and we find that, very often, when we oblige other nations to reduce their subsidies, we are as guilty of it as they are.

One of the potentials that I see that we have in creating a North American free trading block, is we can finally make good on that promise to recapture some of the markets we have lost through well-intentioned, but poorly implemented farm programs. Right now, for example, the oilseed market, I think we have about 8 percent of the Mexican oilseed market. I think they are our fourth largest purchasers.

Clearly, one sector of the agricultural economy that has been badly impacted by farm programs has been the oilseed market. One of the things we have tried to do in the new farm program is make them more competitive, which means make them more competitive to compete overseas. If they cannot, through your efforts at

GATT, get into the European market, they have one of two choices: They can either look for other markets, one next door in Mexico, or they can come back to the Congress through the House Agriculture Committee and say we need a price protection program similar to what you have for feed grains and wheat and the daily program, and that way lies more protectionism, higher government prices and, to get to the bottom line, I think ultimately fewer family farmers.

If there is going to be one thing that is going to encourage the Europeans to finally reduce their subsidies, it will be the domestic pressure created by their consumers and taxpayers who are now burdened by a common agricultural policy which is, at last count, $27 billion annually, and about 65 percent of all of their protectionism. Now, clearly, that disproportion to agriculture cannot survive, and it has not survived in this country, and the cuts that we have been obliged to make have been budgetary driven, and they will continue to be budgetary driven.

However, there is still an opportunity through that reduction, I think, to penetrate other markets. If we do not, as you well know, if GATT fails, in 2 years time, as per the 1988 trade bill, the Secretary is obliged to restore a billion dollars to the export enhancement program. He is obliged to put in marketing loan programs through wheat and feed grains, which will drive up costs, but possibly reduce our competitiveness and skew some of our binational agreements.

As per the Deficit Reduction Act of the last Congress, if we have no agreement on GATT by 1993, the Secretary is authorized to restore all of the farm cuts that we have made up to that time, which means the farm program is out the window and the Deficit Reduction Act is long gone, if it has not already disappeared by that time.

So, there are compelling reasons to get this deal now and to move simultaneously on both fronts, and I support you in that effort. I think, on balance, the dividends for agriculture, as a sector, are great and vast. Now, I cannot speak to the horticulture problems, and I know, because I live at least in that area, some of the problems that the wheat farmers have.

I also know that we have obviously in the coarse grains and the feed grains much more pressure, not just to export those commodities, but to process them and export those value-added products, and everything I have seen from the ITC report indicates to me that the processing industry will be enhanced, not diminished, by an agreement with Mexico. Because they are capital intensive industries and not labor intensive industries, you will not see the soybean industry move over the line and form mequiladoras to make soybean oil and meal.

Having said all of that, let me now return to a couple of areas, from the microeconomic to the macroeconomic level, and express kind of a kinship with my friend from North Dakota, because we both have been profoundly impacted in our little region in this country by the ongoing difference of opinion we have had with Canada over the import of Canadian hogs and pork products. There are two things I want to ask you about, in terms of our potential

agreement with Mexico, which I think have to be addressed, in light of our present agreement with Canada.

As you probably know, the binational panel recently reversed the International Trade Commission's finding to provide a countervailing duty on frozen and chilled product from Canada, pork product coming into the United States. Mr. Dorgan and I, all the way from North Dakota, South Dakota, Iowa, Minnesota, all the way down to Kansas, kind of are in the "pork corridor" of the United States. It does not sound like an exciting place to live, but it is.

Because of that countervailing duty, pork prices have rebounded, not entirely because of that countervailing duty. Forgetting the 2- or 3-cent duty for a minute, what concerns me is the credibility of these binational panels. The ITC, when they reported the decision that the binational panel rendered, said on page 18 of their report, it is now clear from this second panel decision that the panel wanted the commission to reach a preordained outcome by considering only those facts "relegated to an undeserved secondary status" that will support a negative determination.

In other words, the ITC, our arbitration mechanism in the United States, felt that the binational panel was somewhat prejudiced against this case and restricted the amount of evidence they would take, in order to confirm their finding.

Now, you may take a different opinion on that, but I can tell you that to make this agreement work for agriculture with Mexico, we need to review during our process of negotiation the binational dispute mechanism. Because if it becomes a trinational dispute mechanism, we will have to build at least some understandings into these mechanisms, so that we know when a decision is final and what evidence is allowed and what is not, and what the relationship between the ITC and this new panel is.

I just wonder if you, as our trade negotiator, have run into any kind of similar problems with this new binational mechanism that might be corrected in the next go-round, because, clearly, we might be looking at a trinational mechanism if we have a North American Free Trade Agreement, and I would like to hear your thoughts on that.

Ambassador HILLS. We have done very well in the past with the binational mechanism. We have tended to win most of the cases, so that we have not focused on the problems that it may have presented. I am aware of this particular case, and I am aware of the language used by the ITC when the case was remanded for the second time. My understanding is that an issue also has been remanded to the Commerce Department, and it will be ruling in March, so that technically the case is not yet closed.

Mr. GRANDY. Explain to me, because I thought the binational panel was the court of last resort here, I thought that once they ruled the second time, the matter was essentially closed. Is there another hoop that you can jump through?

Ambassador HILLS. There has been some discussion of an emergency or an extraordinary challenge. I do not know whether that is going to be possible, and the lawyers are looking at the question. We are aware of the case and it is being evaluated.

But your basic question related to the dispute settlement mechanisms that one might use in either a bilateral or trilateral or, for

that matter, a multilateral agreement that would provide assurance to the parties affected, that they would get good results promptly and with some certainty.

As I say, in the main, we have found that the system used in the Canada FTA has worked pretty well, from our point of view, but there is much commentary and we will be evaluating the various models that could be employed. There is no other trilateral agreement. We will have the opportunity to think long and hard about that. Of course there is a multilateral agreement; namely, the GATT, which again has worked pretty well for the United States. It has a reputation for being slow, but its speed has been picked up as a result of the midyear agreement, and now opinions are coming out in a matter of months, rather than in a longer framework.

Mr. GRANDY. Well, I will not get into the details of this. We will save that for later when we are actually looking at the specifics of the negotiation. But I do think that there is going to be obviously some steady complaining, if what the binational panel will review as acceptable evidence is significantly different than what the appellate court, in this case the ITC, will look at, and that to my mind has to be cleared up, because in this specific instance we were talking about what they call product shifting.

In other words, if you put a duty on chilled pork, are you going to go back and allow live hogs to come in again, with the lower duty, or processed products, which in this case would be hams? There is a certain amount of shifting here that is significant again in that little region of the world that we live that I think could have some ramifications overall in our value-added trade discussions, and my prediction is that more and more of our ag trade will be valued added and not bulk commodities, as we begin to form these agreements.

I hope we will go back and look at whatever charter the binational panel has and perhaps reconsider what they can and cannot do. I know that would give a lot of comfort to my producers, as they anticipate dispute mechanisms in the future, and I hope you will give that favorable consideration.

Ambassador HILLS. We certainly will.

Mr. GRANDY. Let me ask you now just one other thing briefly about some of the health considerations we have talked about. Again, when you are dealing with disease in animals, obviously, the phytosanitary conditions between Canada and the United States are somewhat different than they are between the United States and Mexico, and it has come to my attention that you do not have the infrastructure of veterinary resources in Mexico that you perhaps have in Canada.

Can you tell me what steps the Mexican Government is taking to undergo comprehensive disease control programs and increased veterinary resources around the country, so that we do not have these problems or that we can perhaps ameliorate the situation before we actually get into negotiating the agreement, so that you do not have to worry about again spreading hog cholera from Mexico back into the United States as we begin to take some of their product back?

Ambassador HILLS. Their products will not come in, unless they meet our standards, No. 1. The Salinas administration is working

on agricultural improvements, and together we have an agricultural binational plan, so that we have tried to provide some assistance at the source of the problem through the APHIS group, and that has been I think a constructive effort.

If there is a pest problem, there are phytosanitary measures applied to Mexico, as to all importers so that products that they believe are not tainted, which we believe are—for example, avocados, we do not let them in. Here we are worried about pests that affect avocados, and have determined they do not meet our sanitary requirements.

Mr. GRANDY. I hope that when we begin to talk seriously about this agreement—again, I would appreciate it if you would keep this committee informed as to what the veterinary infrastructure is of a country like Mexico, because this seems like a very narrow topic, but it has very broad repercussions, if we are talking about, again, an agricultural market which is growing around the world.

You know, as well as anyone, that when a country's standard of living improves, their appetite for poultry and meat and those kinds of products increases and those kinds of products increase the turnover in the agricultural sector many more times than do grains. They can be absolutely stopped short, if for some reason there is no proper vaccination in place.

For example, a country like Mexico can say, well, the United States has not had hog cholera vaccinations for 12 years, because we have basically eradicated it. That means that all hogs that we take into Mexico are more vulnerable for hog cholera, so we will not take—it is those little particular kinds of matters, parochial though they may be, that I think perhaps indicate larger phytosanitary barriers, if we do not make some kind of demand on the Mexican Government to improve to a certain level their veterinary infrastructure, so we have some understanding that they will not be using those health conditions as a nontariff trade barrier. I would appreciate everything that you could do in that area and keeping us informed.

Thank you again for all of your time. Thank you, Mr. Chairman, for allowing me some time.

Chairman GIBBONS. I am happy to have you participate. You are always welcome.

Madam Ambassador, I am not going to prolong this. You have answered the questions with skill, you have controlled your thoughts and emotions and tongue and I will turn you loose. You have got a hell of a lot of work ahead of you. Good luck.

Ambassador HILLS. Thank you very much, Mr. Chairman.

Chairman GIBBONS. The subcommittee will stand in recess until 2 o'clock.

[Whereupon, at 1:11 p.m., the subcommittee recessed, to reconvene at 2 p.m.]

Chairman GIBBONS. Good afternoon, ladies and gentlemen. We will reconvene from this morning's session. Our first witness is Mr. Joe Kolter, a Member of Congress from Pennsylvania.

Mr. Kolter, you may proceed as you wish.

STATEMENT OF HON. JOE KOLTER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF PENNSYLVANIA

Mr. KOLTER. Thank you, Mr. Chairman. I thank you and the Subcommittee on Trade for this opportunity to testify relative to my concerns about the United States-Mexico free trade negotiations.

I fondly recall that the last time I presented testimony to this subcommittee was in June 1989, when I testified on behalf of the need for President Reagan to extend the voluntary restraint agreements on steel imports.

I had great concerns then about this Nation's balance of trade and the unemployment picture as a result of our trade policies. Today, my concerns are even greater, because the very future of our domestic manufacturing base may ride on the outcome of the free trade agreement negotiations with Mexico.

Several questions come to my mind immediately regarding these negotiations: Why is this administration so aggressively pursuing this free trade agreement with Mexico? What would the advantage of this agreement be for a member of the United States work force? Will this agreement offer job security for members of our American work force?

In 1986, I was made aware of a program sponsored by the United States Department of Commerce known as Expo-Maquila '86. I made a call to the Commerce Department which revealed that, through this program, 120,000 American business people were being invited to Acapulco, Mexico, to learn how to send their component parts to a maquiladora in Mexico. It was my understanding then that approximately 95–98 percent of the item would be assembled in Mexico and then shipped to a twin plant in the United States, usually located in California, Texas, or Mr. Kolbe's Arizona, where the final bolts were put into place.

This move to a twin plant was important, because neither the Mexican maquiladora nor the American plant that forwarded the component part would be required to pay a tariff. This procedure resulted in a tremendous savings for the American plant, because one, they paid no tariff, and two, they were able to take advantage of cheap labor of approximately 50 cents an hour, and this was paid to women. I am not sure what the rate of pay is today, Mr. Chairman, but at that time it was 50 cents an hour.

I was of the opinion that this Department of Commerce program should be investigated. Therefore, in 1986, at my request, my Government Operations Subcommittee on Commerce, Consumer and Monetary Affairs, chaired by Congressman Doug Barnard, took a fact-finding trip to both Mexico City and Acapulco, to learn more about this twin plant Expo Maquila. The committee met in Mexico City with the Harvard-educated Mexican Government official who had the responsibility of issuing licenses to these American plants who were doing business in Mexico. I was personally stunned when this gentleman advised me that he had already licensed 155 companies from my home State of Pennsylvania to participate in this twin plant operation. It was small wonder that my area of western Pennsylvania, known historically for its manufacturing base, was suffering the effects of massive unemployment. Pennsylvania, after the 1990 census, will suffer the loss of two Congressmen as a result

of declining population due to the fact that the residents there must move elsewhere to find employment. Pointing to his telephone, he proudly asserted that the last year a telephone was manufactured in the United States was approximately 1976.

We heard one horror story after another, in which he suggested finally to our committee, and which was later confirmed by vice presidents of General Motors, of the Ford Co., and Chrysler Corp., with plants located in Mexico, that by the year 2000, he felt that 80 percent of new cars driven in the United States would be assembled in Mexico.

As a matter of fact, Mr. Chairman, as we flew back in a United States Government jet to Washington, we read in an American-Mexican newspaper the very same day that two General Motors plants in the United States were being closed, to move to Mexico.

You know, speaking for myself, representing a part of Pennsylvania that at that time showed double-digit unemployment figures, I became totally disenchanted with our Department of Commerce. We were advised that there were about 1,800 maquiladora plants in Mexico, employing over 500,000 workers, replacing jobs formerly held by American working people.

My concern today is that this maquiladora program is just a preview of what will happen to the American work force if the administration succeeds in the continuation of negotiations for this fast-track free trade agreement with Mexico.

I feel Congress should properly address the concerns of labor and review the disparity between the United States and Mexican standards of health and safety, wage rates, and worker benefits. If this administration continues its policy of free trade negotiations with Mexico, unfortunately, I can see a situation where the majority of American manufacturers will move the bulk of their operations to Mexico to take advantage of this cheap labor at the expense of the American work force. Ultimately, American domestic plants will close, because they will not be able to compete because of this cheap Mexican labor. Unemployment in the manufacturing sector of the United States will skyrocket. The standard of living for the blue-collar middle-class American will sink to unprecedented levels. Mr. Chairman, I wonder if this is what the administration means by free trade?

Now, there are those who believe that this Government must forge a free-trade agreement with Mexico to meet the challenge posed by the future European economic alliance. I question whether it is reasonable to compare the differences within the European Community to those between our Nation and Mexico.

Germany, the richest member of the alliance, and Portugal, the poorest, have a ratio of GNP per capita of 4.5 to 1. The ratio between the United States and Mexico is 10.5 to 1. The wealthiest members of the European alliance will share the pains of integration with the poorer members. In our case the United States will bear the economic liabilities of a free trade agreement with Mexico alone.

Mr. Chairman, let us not enter into an agreement which would only help big business at the expense of the working men and women of this country. I would hope that the U.S. Congress will

have a greater involvement in the trade agreement process in the future than we have had in the past.

We have been charged by our constituents to be their voice in Congress regarding the important decisions which affect their lives. Certainly, this agreement will impact on every American in many, many ways.

In closing, Mr. Chairman, I urge my colleagues and I urge this subcommittee to reject the administration's fast-track procedure for developing this free trade agreement with Mexico. If we fail to let our voices be heard on a matter so vital to our country's economic well-being, the price we pay will be in the form of lost jobs, lost technology, and regrettably so, perhaps even threats to our national security.

Thank you, Mr. Chairman.

Chairman GIBBONS. Mr. Kolbe.

STATEMENT OF HON. JIM KOLBE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ARIZONA

Mr. KOLBE. Thank you, Mr. Chairman. It will probably come as no surprise to you to learn that my good friend, Joe Kolter, and I have a slightly different viewpoint on this matter. But that is what this process is all about and what the committee is here to hear, different points of view. And I appreciate the opportunity to appear before you and talk about the prospects of a free trade agreement between the United States, Canada, and Mexico, what we are now calling NAFTA, the North American Free Trade Agreement.

Mr. Chairman, I have a full statement, which if I might, I will put in the record and just summarize.

Chairman GIBBONS. Without objection, it will be included in the record.

Mr. KOLBE. Thank you, Mr. Chairman. Clearly this issue has emerged as one of the top trade issues of the 102d Congress. It has come out from behind GATT's shadows, and it is a major, major issue. I guess we foresaw this last summer when we had the hearing that you chaired here in this subcommittee and I had an opportunity to talk about the issue of free trade at that time. Now of course, more recently, the President has endorsed the free-trade agreement in his State of the Union Address. He has requested authority to negotiate it with the United States and with Canada. Canada has signaled its intent to join this trade alliance, and its desire to be a part of a broader, more prosperous North American trading community.

And certainly what the Mexicans have been doing in the last several years has been to tailor their economy and their responses to environmental concerns and their responses to the GATT talks and all their foreign policy, as a matter of fact, to the success of free trade negotiations with the United States.

As my colleague from Pennsylvania pointed out, we are not the only ones to be talking about regional kinds of agreements. And I think we are going to hear more of that in light of the possible, if not probable, failure of the GATT talks. The Europeans are looking for EC 1992 to give them economies of scale, and they are pursuing which with their Common Market. It has also been suggested that

Asia, Japan, and the so-called Five Tigers may well be going down the same path very soon.

Whether or not GATT is successful, Mr. Chairman, and I happen to believe that the multilateral talks at GATT are very, very important to the economic prosperity of the United States; but whether or not they are successful, I believe these kinds of regional trading blocs and free trade agreements are going to go forward and, of course, they are permitted under GATT. And I think it would be most tragic and unfortunate if the United States were to put itself in a position of comparative disadvantage simply because we did not take advantage of the next natural step for North America, and that is a North American Free Trade Agreement—NAFTA.

Let's focus a little bit on North America and what the effects of this would be. First of all, North America encompasses a trading community that has more than 360 million people, a GNP of close to $6 trillion, and total trade flows amounting to more than $225 billion. That is a pretty impressive amount of trade on which to build a free trade framework.

The argument is always made that the United States is going to lose out on this; but I think the United States will gain from a free-trade agreement. The argument that we lose has to be premised on the idea that trade is a zero sum game, as Ambassador Hills mentioned this morning. These arguments claim that it is a finite pie and that somehow, when you take one piece from somebody, you are taking it from somebody else; that it is not an ever-expanding pie. But I believe the trade pie is expanding.

I am not going to support an agreement that is not going to benefit U.S. industry and its work force. I would not, and neither would you, Mr. Chairman. But the International Trade Commission has made it clear in their report that the United States is going to benefit from this by expanding trade opportunities—I'm quoting here—lowering prices, increasing competition, and improving the ability of U.S. firms to exploit economies of scale—unquote.

What does that mean? Well, NAFTA boils down to this: U.S. industries and specific firms will be able to offer a wider array of products to a much larger number of people at reduced prices. As a result, I think American exports are going to increase substantially. And exports, as we know, Mr. Chairman, are clearly the medicine right now and for the coming decade, to stimulate a new expansion to end this recession that we seem to be in right now. Exports will also help resolve our budget deficit problem.

Mexican consumers are hungry for United States exports; those of us who live along the border know this very well as we watch the people coming across and buying goods. In fact, there is a tremendous propensity in Mexico to buy United States goods. In fact, right now, only Canada and Japan exceed Mexico's consumption of our goods and services. Two-thirds of Mexican imports come from the United States. And they are not coming just from border States, they are coming from all over. In fact, two of my colleagues testifying here today come from States with substantial exports to Mexico. These States are Ohio, with $433 million in exports, and Pennsylvania, with $424 million in exports.

Using the figure that is generally used of $30,000 of exports per job, that translates into 145,000 jobs in Ohio and 140,000 jobs in

Pennsylvania that are directly—not indirectly—related to exports to Mexico. And you can find the same in many other States. And I think the most interesting thing is the swing in trade that has taken place in recent years.

Since 1986, we have gone from a $1.2 billion trade deficit with Mexico to a $2.1 billion trade surplus. This translates into more than 100,000 jobs created in the United States as a result of expanded trade opportunities in Mexico as a result of political and economic changes that have taken place in that country. These figures do not count our oil trade with Mexico. That is just a precursor of what we might see in the future. And I think a great deal of credit has to be given to the Mexican Government for this.

And one has to ask the basic question: Would President Salinas want a free trade agreement if it would not benefit Mexico, if it would result, as we constantly are being told, in the exploitation of Mexican workers? The answer is, of course, "no." And the sector of the Mexican industry most closely associated with United States trade is the maquiladoras or the twin plant industries along the border, which have a manufacturing wage almost twice that of what is paid to the rest of manufacturing in Mexico. This is a clear indication that the maquila program benefits Mexico even as it is benefiting the United States.

A Peat Marwick study that you will have very shortly suggests that the wage bill in the United States with the free trade agreement will also rise with the long-term implementation of this agreement. In other words, wages in the United States will go up. Wages will go up even more sharply in Mexico. The difference that my friend from Pennsylvania was quoting, the 10.5 to 1 GNP differential, will narrow substantially, and the GNP and the wages in the United States will increase.

Mr. Chairman, we are going to hear very clearly in the months ahead about a lot of other issues that are going to be associated with free trade, and they are important issues. But I don't think they should distract us from the basic issue of this free trade agreement between the United States, Mexico, and Canada. These collateral issues need to be dealt with on a binational, bilateral, or trilateral basis, but not within, in my opinion, the context of the free trade agreement.

And I will go farther than Ambassador Hills in saying that. Ambassador Hills is quite correct. Nothing is on the table so it is not appropriate for her to take anything off the table. But I can tell you, for instance, that I don't believe immigration is going to be a part of this agreement. There are other issues, such as the infrastructure along the border, that clearly must be dealt with if we are going to have greater trade; but this issue also ought not to be a part of the free trade agreement. Illegal drugs are also a major issue; but that, too, should not be a part of NAFTA.

Indeed, if we want to talk about having cooperation with Mexico on such things as immigration or on drugs or other issues that are political kinds of issues, the surest way to have that cooperation is to continue to develop the trade relationship. Cutting this relationship at Mexico would put a barrier up between our two nations, and would end all drug cooperation. Anybody that works in the drug program for the United States Government will tell you,

whether they are in this country or in Mexico, that the improving relationship over the last few years has led to much greater cooperation and success in the war on drugs.

As we move forward to negotiations, the environment is certainly the No. 1 issue that I think everybody is going to be talking about. And the Mexican Government has passed some tremendously effective environmental laws. The problem, very clearly, is not the laws that are on the books but the resources that Mexico has to implement and to enforce those laws. The FTA will help give the Mexican Government the revenue they need in order to provide better enforcement of environmental laws in Mexico.

There are going to be winners and losers in any kind of trade agreement, Mr. Chairman. You have been around long enough to know that, better than I certainly will ever know. Some sectors of the economy will do well, some will do less well. I have to add, by the way, that one of the sectors in my district that will not do well in NAFTA is the vegetable and citrus growers. They are opposed to this and they have a lot of concerns and questions about it. But I happen to believe overall that we should go forward with free trade with our neighbors.

Let me just close by saying that the final issue I think that we need to talk about is the process that we use in these negotiations. There are some who say we shouldn't use the fast-track authority because these other questions are too complex, and that they should not be dealt with in under the fast-track requirements. I think that we need to understand that these objections are an effort to end the ability to have a free trade agreement between the United States, Mexico, and Canada.

I would simply ask: Why would we oppose this agreement before we have even started the negotiations? I think that the Canadian agreement gives us a good benchmark from which to judge how this process will go, and I think we should move forward with a broader, more prosperous North American free trade agreement. I think you know, Mr. Chairman, that the United States Congress received a lot of input during the course of the negotiation of the United States-Canadian Free Trade Agreement. After all, any agreement has to come back to Congress, the President, and Ambassador Hills. The negotiators know this. As a result, they will come back to Congress to get our input as the talks proceed. But the fast-track authority is very important. We should allow a team of negotiators to speak for us rather than 535 Members of the House and the Senate, which is what you have if you do not have fast track.

Mr. Chairman, I'm committed to seeing better relations with Mexico, and I think the Mexican government has made more economic progress in the last 5 years than in the past 50 years. The continuance of that progress for Mexico rests with a vigorous and an open trade policy. And in this context, the United States and Mexico have mutual interests and aims and we ought to pursue them vigorously. The free trade agreement is one way to do that.

I thank the chairman for this opportunity to testify.

[The prepared statement follows:]

STATEMENT OF
REPRESENTATIVE JIM KOLBE
ON THE SUBJECT OF
A NORTH AMERICAN FREE TRADE AGREEMENT

Mr. Chairman and members of the Committee, thank you for allowing me to appear before you today to comment on the prospects of a free trade agreement (FTA) between the United States, Mexico and Canada. While the Uruguay Round of the GATT talks has been the focus of attention in the eyes of many trade policy makers, the U.S./Mexico FTA has clearly emerged from GATT's shadows to become a top trade issue of the day.

I testified before this subcommittee last June to express my hope that free trade between the United States and Mexico would someday be realized. Well, we have clearly passed that conceptual stage. It is now a solid proposal with solid backing.

The President endorsed an FTA in his State of the Union Address.

The Canadians have signaled intent to enjoin this trade alliance, and their desire to be a part of a broader, more prosperous North American trading community.

The Mexicans have tailored their economy, their responses to environmental concerns, their treatment of the GATT talks and their entire foreign policy on the success of free trade negotiations.

These hearings today, both in the Senate Finance Committee and the House Ways and Means Trade Subcommittee, demonstrate Congress' interest in exploring this issue.

President Salinas brought his bold vision of Mexico's future to Washington last June with his call to begin the process for negotiating a free trade agreement between our two nations.

He has been the driving force behind an economic restructuring that has resulted in dramatically reduced tariffs, liberalized foreign investment regulations, lower inflation, privatization of hundreds of state-run entities, and the emergence of Mexico as a country eager to trade, especially with the United States.

Increased economic, social and cultural cooperation between our two nations is a natural evolution of our relations with Mexico, just as it was with Canada during the mid 1980's leading up to the U.S./Canadian FTA

As Dr. Jaime Serra, Mexican Secretary of Commerce and Industry recently said, "We will be neighbors forever."

Of course, we are not the only ones looking for regional partners for trade integration. Obviously the Europeans also believe in regional economies of scale, and are pursuing their common market. There are those nations in Asia as well that seem to be going down this same path.

I am hopeful that a successful conclusion of the Uruguay Round can diffuse some of the worldwide impact of these emerging world trading blocs. The fact is however, the conclusion of the Round is far from certain, and that these blocs will go forward whether GATT is successful or not.

I do not necessarily like the idea of regional trading blocs, but on the other hand I do not want the United Stats put into a position of comparative disadvantage simply because we did not take the next natural step for North America: A North American Free Trade Agreement (NAFTA).

So, let's focus on North America.

We are looking at a trading community encompassing more than 360 million people; a GNP of close to $6 trillion; and total trade flows amounting to more than $225 billion -- impressive numbers on which to build free trade.

North America would become the single most powerful economic region in the world, with a population larger than the European Economic Community and the largest combined GNP in the world.

Greater economic integration is already happening -- NOW.

Look at the Canadian Free Trade Agreement. While it is still a new agreement initial reports show that advantages are there. The agreement has proceeded smoothly and tariff reduction schedules have been accelerated. Investors and firms on both sides of our northern border have taken advantage of the new found trade opportunities.

To the south, Mexico is already our third largest trading partner behind Canada and Japan. Trade between our two nations is estimated to be $59 billion for 1990, a 70 percent increase from 1987. This is a genuine tribute to the trade liberalization initiatives of President Salinas.

Let's take a closer look, however, at how the U.S. stands to gain. After all, no member will support an agreement that does not benefit U.S. industry and its workforce.

I wouldn't.

The International Trade Commission's most recent report indicated that an FTA with Mexico "will benefit the U.S. economy overall by expanding trade opportunities, lowering prices, increasing competition, and improving the ability of U.S. firms to exploit economies of scale."

But what does this mean? A North American Free Trade Agreement boils down to this: U.S. industries and specific firms will be able to offer a wider array of products -- to a much larger number of people -- at reduced prices, and American exports will increase substantially.

This is great news for the American economy. Exports have led economic expansion in the United States, accounting for 90 percent of our GNP growth. Every billion dollars of exported American goods accounts for roughly 22,000 jobs.

Any economist these days will tell you that export led growth is one of the best strategies for the U.S. in the 1990s. I know that many members already feel constrained during the current recession because the traditional tools of economic growth -- fueled by fiscal and monetary policy -- are no longer available.

That is why exports may be our best medicine in the coming decade for avoiding a prolonged recession and even more serious budget deficits.

Mexican consumers are hungry for U.S. exports. Right now, only Canada and Japan exceed Mexico's consumption of U.S. goods and services. At least two-thirds of current Mexican imports come from the United States.

These exports are not just coming from border states, as some may believe. New York exported roughly $760 million worth of goods to Mexico in 1989. The figure for Pennsylvania was $424 million. Colorado had $89.4 million in exports. Georgia exported $213 million to Mexico in 1989.

If an agreement can be structured that reduces trade barriers then we will see greater access to the Mexican market which will benefit tractor producers in Illinois, apple growers in Washington, grain producers in Kansas, Nebraska and Iowa, and auto manufacturers in states such as Michigan and Ohio.

Now, let's focus on Mexico for a moment. We have all heard the opposing arguments that claim an FTA will only exploit the Mexican workforce. I am puzzled by opponents who claim that the FTA won't benefit either the U.S. or Mexico because Mexican workers cannot afford American products. They further claim that an FTA will only exacerbate this situation as Mexican workers are exploited by U.S. corporations that immediately dash south of the border to take advantage of "cheap" labor.

I believe we need to give the Mexican Government more credit than that. Why would President Salinas want an FTA with the United States if he knew that it would result in the exploitation of Mexican workers, or if he believed it would not increase the standard of living for his people?

The International Trade Commission's report indicates that there would be a significant narrowing of wage differentials between workers in the United States and Mexico. Between rising wages and significant consumer demand, the Mexican standard of living will have the opportunity to increase like never before.

Further, a Peat Marwick study that will soon be released will indicate that the overall "wage bill" in Mexico, which combines wage rates with employment figures, will increase significantly under an FTA. There will be more Mexican workers employed, and at steadily increasing wages.

I might also add that the Peat Marwick study also indicates that the wage bill for United States workers will also rise with the long-term implementation of an FTA with Mexico and Canada. More American workers will be employed at higher wages.

Mr. Chairman, I would be remiss today if I did not briefly touch on the benefits for my home state of Arizona, which along with the rest of the border states, will be impacted more quickly than the rest of the country.

The mirror image of the benefits of a free trade agreement for the nation as a whole are reflected for Arizona as a state. Mexico is Arizona's largest trading partner; 3 percent of the nation's exports to Mexico come from Arizona. This equals $734 million in exports that translates into thousands of jobs throughout Arizona and the southwest region.

Additionally, the Department of Commerce recently cosponsored a trade fair in Mexico City. Nine Arizona companies came home with $2 million in sales and another $5 million in additional commitments.

We are going to hear in the days ahead about issues that I believe are side issues to the main topic of free trade. Though no less important, these issues should not distract free trade negotiations, but rather should be addressed in parallel forums.

I am pleased to say that this is currently happening. As U.S./Mexican cooperation on the narcotics problem demonstrates, we do not need free trade negotiations to solve complex bi-national problems.

Immigration, for instance, has long been a source of consternation between the United States and Mexico, and the FTA will influence this issue. Some contend that illegal immigration will increase. I seriously doubt this claim.

As I already discussed, under an FTA the Mexican economy will expand and provide more and better jobs for its people. An increased standard of living will result in less illegal immigration across the southern border, not more.

President Salinas recently noted in the Wall Street Journal "the key question is, where do you want Mexicans to work, in Mexico or the United States? I would rather export goods than labor."

Another issue will be infrastructure. Admittedly, the U.S. and Mexican governments have to commit themselves to assuming some of the costs that will be needed for additional roads, customs stations, border crossing points, bridges, railroad networks and all of the other items needed to facilitate increased trade.

However, increased commerce will pay for these improvements, just as the Federal Highway System has paid for itself by facilitating the interstate flow of goods.

Private firms as well must bear some of the infrastructure costs, and I believe they will be willing to do so. Late last year I was in Hong Kong for a conference on Mexico (such a conference must say something about the universal interest in Mexico). A group of investors there were discussing the possibility of building a Port in Guaymas.

They were interested because 40 percent of all goods that off-load at Long Beach and Los Angeles are bound for the east coast of the United States. But these ports have no room to grow, are plagued by labor problems and have transportation problems through the City of Los Angeles. Guaymas, while a day further from Asia by sea, is 350 kilometers closer to New York City by land, and may be able to serve as an alternative, cost-effective, trading port.

Who knows if the Guaymas Port idea will ever gain fruition, but this is only one example of the kind of creative thinking a free trade agreement with Mexico can stimulate. Infrastructure requirements will represent new and unique opportunities for American firms, and they are beginning to realize it.

One final ongoing issue is environmental protection. I know these concerns are real. However, we must look at the dramatic steps are being taken to address these environmental problems and anticipate future issues.

The Environmental Protection Agency (EPA) and the Mexican government are today cooperating to solve sewage and wastewater treatment plans and improve air quality.

The Mexican Government, under President Salinas' leadership, passed new environmental laws in 1988 that will modernize Mexico's efforts at environmental protection. These laws are generally modeled after our own.

One of the effects of these laws was the recent implementation of strict auto pollution reduction measures in Mexico City. All motor vehicles within a 50-square block area in downtown Mexico City have been banned. Auto emission testing has been mandated for buses and trucks entering the city, and the government has introduced unleaded gasoline for new cars which will be required to use catalytic converters.

The real problem for the Mexican government is not the environmental laws on the books, but finding the resources to implement and enforce them. An FTA will raise valuable revenue for the Mexican government to require compliance with environmental laws. Without an FTA, it is unclear where Mexico will find these additional funds.

Mr. Chairman, the final and most important comment that needs to be made deals with the process to get to negotiations.

Yes, there are some who do not want to pursue this chance for fear of losing jobs, harming the environment or exploiting Mexican workers. We've heard the arguments, and they are compelling.

But isn't it ironic that they oppose an agreement that is yet to be negotiated?

At the very least, the Congress must allow Ambassador Hills and our trade negotiators to enter into free trade negotiations with Mexico and Canada to see what kind of agreement can be reached.

At that time that we would be in a better position to decide if in fact the agreement helped or hurt our economy. If it hurt, I wouldn't support an agreement.

Despite what may happen in the Uruguay Round, I urge my colleagues to not disapprove of the extension of fast track authority for a U.S./Mexico/Canadian free trade agreement. This authority was passed by Congress to improve the prospects of entering into trade agreements. Without fast track, the interference of 535 Members of Congress in trade negotiations would make reaching agreements unwieldy.

Make no mistake, without fast track authority we will not have the opportunity to explore free trade with Mexico and Canada.

I could go on much longer about the positive impact of a U.S./Mexico/Canada free trade agreement. Instead, I will end by simply stating that I am committed to seeing better relations with Mexico. The Mexican Government has made more economic progress in the last five years than in the past 50. The continuance of the progress for Mexico rests with a vigorous and open trade policy. In this context, the U.S. and Mexico have mutual interests and aims, and we should pursue them vigorously.

Again, I thank the committee for this chance to testify, and I fully support going forward with free trade negotiations with Mexico and Canada.

Chairman GIBBONS. Well, thank you, Mr. Kolbe.
And now, Ms. Kaptur.

STATEMENT OF HON. MARCY KAPTUR, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OHIO

Ms. KAPTUR. Thank you, Mr. Chairman. It is an honor to again appear before your subcommittee, and I know how carefully you look at these issues. I have quite a lengthy statement for the record with several appendices, and I would just ask if that could be inserted in the record and I will try to——

Chairman GIBBONS. Without objection, it certainly will be.

Ms. KAPTUR [continuing]. Summarize, and I have seven recommendations I would like to go through. But I just want to put this in a bit of a setting. Conceptually, I think, for me, the idea of a free North American unified market between Mexico, Canada, and ourselves in trade partnership for the long haul makes a great deal of sense, because Mexico is our third-largest trading partner. But I would have to say that I am less concerned with the ultimate end of free trade than I am with the nearer term means that must be taken to achieve that end. And if I have any model in my own mind, it would be that that integration occur gradually and that safeguards be a part of the agreement.

I believe that the administration cannot continue to ignore critical social, political, and economic issues inherent in any such precedent setting trade agreement. And in fact, it is precedent setting between two nations that have such vastly different standards of living. And I will say more about that in a second. Such issues as individual and labor rights, decent standards of living, and environmentally safe working and living conditions are fundamental precepts, I think, to any workable free trade agreement.

I urge you and this committee, and the administration, to construct a negotiating agenda that moves beyond its current narrow focus on tariffs. And at this point, I just want to inject a dose of reality if I might by reading from a retired auto worker from the United States who went into Mexico where he toured an auto plant which makes brake hoses, steering wheels, and instrument panels.

He says:

> The thing that shocked me the most was that the plant hired only very young girls. U.S. management claimed that the average working age of their workers was 18 to 19 years old. When talking to those workers who could speak English, I found out that many of the girls were only 13 or 14 years of age. There were very few men or older women working in that particular plant. During the tour, I went into one of the employee restrooms. The restroom was a disgrace, bug-infested, with dirt everywhere. The wastes from these plants flow into the water supplies without any type of waste treatment, the reason being that since they do not have to spend any money on sewage treatment, the products they produce are cheaper yet.
>
> Most homes around the plants are nothing but wooden shacks with no water or toilets,

and I know that the Chairman has been in Mexico many times and has seen what I am talking about.

> Many of the children that I saw around these homes were without clothes and many looked as if they needed medical attention. The main streets were paved, but most side streets were unpaved with huge potholes in them, making the area very dusty. So that you might better understand this poverty, a worker in a union shop there averages about 52 cents an hour. In a non-union shop, the worker makes about half that, 20 cents an hour. The average Mexican worker makes about $24 a

week, and of their expenses that includes rent, water and electric, they have about $16 left at the end of the week for food, clothing and other necessities for life. I could go on, but I believe you get the picture. Workers there can be terribly exploited.

One of the inserts in the appendices that I am including are the number of jobs that have, in fact, been lost in the United States. It indicates, and it is appendix 8 that only deals with auto-related jobs that have left the United States—it may be true that in Mr. Kolbe's district, who is the beneficiary of some of the services and transshipment that is a part of the plants located in Mexico, jobs are in fact created. But the converse of that is that in other parts of the United States, jobs are lost. In the figures I show, over 60,000 jobs just in auto parts and auto-related jobs have been lost.

I think it is essential, Mr. Chairman, that Members of Congress and the key committees of jurisdiction like your own become involved at the outset in framing the issues to be dealt with so the negotiations can go forward successfully. The fast-track provision provides Congress with no means of oversight. If the concerns that I will outline are not adequately addressed as part of the negotiation, then each Member of Congress must seriously think about the logic of providing the administration with a fast-track procedure which would effectively leave Congress out of the loop with a single yes or no vote and fundamentally ignore the serious issues described in my testimony.

Mr. Chairman, if Mexico were not a sovereign nation with a rich and glorious history, I would be inclined to suggest that the only fair way to achieve a free trade agreement between our respective bodies politic would be to offer Mexico statehood in our Union. Barring that unlikely eventuality, there remain fundamental differences in our respective system no trade agreement should ignore.

These include wide and growing disparities in our standard of living, differences in our approaches to ensuring basic constitutional and political freedoms, and widely varying experiences in expanding individual liberties, including property ownership, small business enterprise, banking, and entrepreneurship. Our nations manage our federated systems of government quite differently, and the United States, unlike Mexico, has a long history of sharing of the balances of power with local and State governments.

Our private sectors are impacted in divergent ways by the role of regulatory enforcement by the public sector. For our nations to jointly reap the mutual benefits of trade expansion, trade must be part of a larger strategy for growth and change in Mexico and for adjustment here in the United States and Canada—to rely on exports and a large trade surplus as Mexico's growth engine is likely to prove self-defeating if history is any teacher since any fast-track process would require unacceptable deterioration in the United States trade position.

I wanted to, in order to make the best use of your time, summarize my major recommendations that should be included in any agreement, and then I might just go through my testimony real quickly and highlight a few points for you.

First of all, in terms of recommendations, there is precedent for addressing trade distorting practices in trade agreements. Thus I recommend that the Ways and Means Committee, during the 60-

day consultation period, seek specific assurances and a written commitment from our President and the United States Trade Representative that any United States-Canada-Mexico free trade agreement encompass the following:

First of all, that it be a comprehensive agreement. For our nations to reap mutual benefits of trade expansion despite our very different national histories and economies, trade must be part of a larger strategy for growth and change, as well as for adjustment in both the United States and Canada. Further, general and sectoral trade provisions should be negotiated.

Second, on rights of workers, acceptance in principle and recognition in practice that measures relating to employment must take fully into account the fundamental rights of workers under intergovernmental declarations, conventions, and agreements, particularly as they relate to the conduct of international trade. Countries that are party to a North American free trade agreement should recognize that all countries have a common interest in respecting the fundamental rights of workers and in the achievement and maintenance of fair labor standards related to productivity, and thus in the improvement of wages and working conditions as productivity may permit. Those same countries recognize that the systematic denial of the fundamental rights of workers and tolerance of unfair labor conditions, particularly in production for export, create difficulties in international trade. A social charter should be adopted attendant to this agreement. Further and accordingly, a North American workers' rights title should be included in any trade agreement, along with a fringe benefit standard. Women's labor rights are to be equally attended to in this title since so much of the foreign investment in Mexico ends up in the employment of women, as well as a trade adjustment section for United States workers impacted by exodus of jobs to Mexico.

Third, regarding environmental and agricultural standards, acceptance in principle in the agreement and recognition in practice that measures relating to the conduct of international trade must take fully into account fundamental environmental standards of concerns to all inhabitants of North America. Member countries that are a party to a North American free trade agreement recognize that all countries have a common interest in safeguarding the environment and in achievement and maintenance of fundamental environmental standards necessary to protect human, animal, and plant life and health and in the conservation of natural resources as such measures are made effective in conjunction with restrictions on domestic production or consumption. Those same countries recognize that the systematic neglect of fundamental environmental standards, particularly in production for export, create difficulties in international trade and accordingly a tripartite national panel shall be empowered as a party to this agreement and take whatever action may be appropriate and feasible to eliminate such practices and conditions.

Fourth, on trilateral dispute settlement, establishment of a trilateral dispute resolution mechanism and corresponding powers to investigate, adjudicate, and settle trade-related disputes and to enforce settlements concerning the interpretation or application of the provision of the FTA and brought either by governmental or

nongovernmental petitioners in any country on appeal after the exhaustion of all national remedies available to the petitioner.

Fifth, Mexican capital repatriation; a Mexican capital repatriation standard should be adopted as a threshold to activate and sustain the fair and free trade agreement.

Sixth, election observer teams; international observer teams should be required at the next Mexican elections, and finally, expanded border inspection. Border inspection must be guaranteed and expanded to ensure environmental quality, including in the agricultural products that would be shipped back here to the United States and to stem the flow of illegal drugs across the border.

Mr. Chairman, if I might continue very briefly and just highlight a few points which are in the testimony in more detail. Some have suggested that the Canadian Free Trade Agreement is instructive in trying to shape this free trade agreement. I would disagree. There are many reasons I summarize in the testimony for this, largely because of the great differences in our standard of living but also in terms of the demographics of Mexico, because by the end of this decade, Mexico's estimated population will be about 100 million. That will equal just under half of the total population of the United States and Canada combined.

I think there are many unintended consequences that can arise solely from the demographics that will continue to affect what is happening in North America. I think that if we tried to look at a trade agreement that might make sense, I would tend to look at the efforts in Western Europe to expand the Common Market to include Spain and Portugal, because there—and even their standards of living were substantially different and integration occurred relatively smoothly. But with the standard of living differences between Canada and the United States being about 1,000 percent different from Mexico, I think one has to look at even the agreement in Europe included such provisions as a social charter and in addition to that, there were provisions that slowly phased in the agreement in various sectors, and sectoral concerns were a part of the overall agreement.

I think that that model from Western Europe might make more sense even though Spain and Portugal are very different from what we are facing with Mexico. I wanted to say a word, if I could, about economic disparity, because Mexico's GDP per person, per capita, is about $1,820, compared with the United States at about $18,500. Even Brazil and South Korea and many other nations, and we list these in the appendix, have much higher GDP's per capita than does Mexico.

The income gap in Mexico has also been widening, and during the 1970's and 1980's, we saw that in Mexico the poorest people, the poorest 20 percent, got 3 percent of total income and the richest 10 percent got 41 percent. The distribution of income in our society is so very different, I think one of the key policy questions has to be how to negotiate a trade agreement in view of these very wide disparities. An average farm worker in Mexico makes about $163 a year. That is very different from farmworkers in the United States who are not exactly living high off the hog.

In addition to that, we know that in Mexico, they earn about $5 a day. Here, minimum wage in April will go up to $4.25. So I think

that some of the questions I ask myself are, "When this is negotiated, what measures will a trade agreement set in place to ensure improvements in standards of living on both sides of the border?"

Mr. Chairman, I have to say I truly am concerned about the potential because of the demographics, the existing disparities between rich and poor in Mexico, and the known propensity of corporations to try to get away with the least in the way of social benefits for their workers, for the Mexican work force to be extremely exploited as they have been and are being exploited today if we are not careful in how this agreement is structured.

I ask myself, "Will North American standards for workers simply be lowered as vast pools of Mexican workers become poor in a system in which they have no control?" Hopefully this is not what is meant by a free trade agreement. As one worker commented after visiting some of the United States facilities in Mexico, he said, "President Carlos Salinas has said that the Mexican people had nothing until United States companies moved to Mexico." And he says, "Guess what, Mr. President? With $7.50 average wage per day, your people now have jobs, but still have nothing."

And Mr. Chairman, on the condition of workers, I think that because of my concern on the exploitation issue, I think that this agreement must include language that helps to define exploitation of labor. On the religious side, and I am rather prejudiced here in the sense that I am going to quote Pope Leo XIII—defined exploitation of labor as the small number of the very rich able to lay upon the teeming masses a yoke little better than that of slavery itself—and he continued, wages ought not to be insufficient to support a frugal and well-behaved wage earner.

I think it is very clear in the appendices we have included, Mr. Chairman and members, that the average weekly earnings of a single working mother employed by a foreign plant in Mexico is as follows: She earns about $24.25 a week, and the article details what she can buy. She must work one-half day for a gallon of milk; 1 day for a pair of tennis shoes; 3 weeks to afford a toilet in her home, which most families in Mexico cannot afford because they can barely afford the basics of life.

No Member of Congress can put blinders on and support an initiative to expand trade and investment without assessing the short- and long-term impacts on the work forces of these two nations. I think we have heard a lot from the Trade Representative this morning and others that all these exports from the United States are increasing to Mexico, and this is why it is so great.

Mr. Chairman, I would wish to enter for the record the trade statistics that show what has been happening already as a result of U.S. investment is really the largest share of that transborder trade, is in the form of intermediate goods such as automotive and electronic parts which account for the greatest share of the shipments from the United States to Mexico, where some value added is done on production, and that is shipped back to the United States. The figures are just startling.

Imports from Mexico increased in 1988 by about 15 percent, and in automobiles and parts, it has increased by an additional $556 million in that year, up to $3.9 billion, and television receivers from $296—by an additional $296 million. But I think the point I

wish to make there is really what is happening down there is some aspect of production, and it is not in the sense that the people of Mexico can actually afford to purchase what they are making.

And I wanted to include in the record and have done this, testimonies from people in the United States who have visited many, many of these plants in Mexico and observed first-hand what is happening. I would urge the members of the committee to please read these testimonies as you try to understand how this agreement might affect real people's lives.

I just want to say, Mr. Chairman, that I did visit Mexico and had the opportunity to go into many companies including one health products firm that lowered its labor costs as a part of its operating costs from 15 percent to 2 percent. And none of the workers in that plant had any health insurance that would permit them to buy any of the appliances that they were, in fact, making if they were sick and needed them. All those appliances were shipped back to the United States.

The same is true with the Mexicans working in the auto plants. There are no parking lots outside these plants. These workers cannot afford to buy automobiles that they are in fact helping to make, and the list goes on. I was in one plant where I saw women spraying glue on rings, and this was an Ohio company that had located production down there to Mexico. They wore no masks; when I asked why they were not wearing masks, I was told, "Well, the women do not like to wear masks and the fans pull out the fumes anyway."

I saw men pulling down machines that stamped out rubber parts, and there were no guards on the machines. Their arms could get caught in there. And it was extremely hot in that particular workplace. And when I asked the manager of that company, who was a United States citizen who did not live in that region, whether or not the workers in that plant were covered by some form of Mexican social security, he told me he did not know the answer because all he worried about was the bottom line. So much for social conscience on the part of some of the people who work down in that area.

I know I probably have gone over time, and there is another witness, Mr. Chairman, but I do wish to say for the record, I have also included the story of Cindy Hudson of Evansville, IN, who had been employed by the Zenith Electronic Corp. She earned $7 an hour in Indiana, not terrific wages, but Cindy, along with 1,400 workers, were thrown out of work when Zenith Electronic Corp. closed its Indiana facility and moved to Juarez, Mexico.

I found it very interesting, and for the record, I am including the list of United States companies that are supporting a United States-Mexico Free Trade Agreement, it does not surprise me at all that Zenith Electronic Corp. is one of the companies that is supporting such an agreement. And I think it is absolutely critical that trade adjustment assistance or some type of assistance be available to U.S. workers who will be affected by this.

I can tell you just last week, Mr. Chairman, in my own district, 250 Chrysler workers were permanently laid off from an auto parts manufacturing company and at the same time, a Toledo auto parts company that makes wheel well liners for the Dodge Aries Reliant

K car shifted production to Toulouca, Mexico. An auto worker in Ohio earned $17.27 per hour with health and retirement benefits and can afford to buy a home and the car that they manufacture. That worker will be replaced by a Mexican worker who earns $1 an hour, has no retirement program, and cannot afford to buy a home nor purchase the cars and parts that they are making.

So I guess I would say, Mr. Chairman, I would be very anxious to work with you and members of the committee on all the recommendations that I have included in this testimony. But I think the key provision for me would be a North American worker rights title, along with a fringe benefit standard. And I thank you and the members for your patience.

[The prepared statement and attachments follow:]

STATEMENT BY CONGRESSWOMAN MARCY KAPTUR
FEBRUARY 20, 1991
BEFORE THE COMMITTEE ON WAYS AND MEANS
SUBCOMMITTEE ON TRADE

Introduction

Gradual Integration With Safeguards

It is a pleasure to appear before you to testify about the proposed U.S.-Mexico trade agreement. Conceptually, the idea of a free, North American, unified market with Mexico-Canada and the U.S. in trade partnership makes sense for the long haul. After all, Mexico is the United States' third largest trading partner. But, I am less concerned with the ultimate end of free trade than I am with the nearer-term means that must be taken to achieve that end.

I believe the Administration cannot continue to ignore critical social, economic and political issues inherent in such a precedent-setting trade agreement between two nations with vastly different standards of living. Individual and labor rights, decent standards of living, and environmentally safe working and living conditions, are fundamental precepts to any workable U.S.-Mexico FTA. I urge this Committee and the Administration to construct a negotiating agenda that moves beyond its current, narrow focus on tariffs.

It is essential that Members of Congress, and the key committees of jurisdiction, become involved at the outset in framing the issues to be dealt with the negotiations if they are to go forward. The fast track provision provides Congress with no means of oversight. If the concerns I outline are not adequately addressed as part of the negotiation, then each Member of Congress must seriously think about the logic of providing the Administration with a fast track procedure which would effectively leave Congress out of the loop, with a single yes or no vote, and fundamentally ignore the serious issues described in my testimony.

Mr. Chairman, if Mexico were not a sovereign nation with a rich and glorious history, I would be inclined to suggest that the only fair way to achieve a "free" trade agreement between our respective bodies politic would be to offer Mexico statehood in our Union. Barring that unlikely eventuality, there remain fundamental differences in our respective systems no trade agreement should ignore. These include: widened growing disparities in our standards of living, differences in our approaches to assuring basic Constitutional and political freedoms and widely varying experiences in expanding individual liberties, including property ownership, small business enterprise, banking and entrepreneurship. Our nations manage our federated systems of government quite differently and the U.S., unlike Mexico, has a long history of sharing of the balances of power with local and state government. Our private sectors are impacted in divergent ways by the role of regulatory enforcement by the public sectors.

For our nations to reap the mutual benefits of trade expansion, despite our different national histories therefore, trade must be part of a larger strategy for growth and change in Mexico, and for adjustment here in the U.S. and Canada. To rely on exports and a large trade surplus as Mexico's growth engine is likely to prove self-defeating, since any fast track process would require unacceptable deterioration in the U.S. trade position. Coupled with macroeconomic and other reforms in Mexico and a viable solution to the external resource problem, trade can be a source of benefit to both the U.S. and Mexico. Absent such a broader strategy, however, export expansion by Mexico, or exodus of more

U.S. jobs to Mexico, could be a major source of strain in relations between our countries.

In shaping this trade agreement with Mexico, the Canadian Free Trade Agreement offers little that is instructive. The fact that our three nations share the North American continent is our most common experience; beyond that, our differences predominate.

While the U.S. and Canada have similar economies, including levels of economic development, regulations and standards, the U.S. and Mexico could not be more different in these areas. Even Mexico's birth rate and its population impact on the North American continent is profound. By the end of the decade, Mexico's estimated population of 100 million persons will equal just under half of the combined population total of U.S. and Canada. Thus, any free trade agreement between our respective nations will be driven by unintended consequences arising solely from demographics. These serious population pressures will exacerbate differences in our standards of living and cannot be ignored. Though market integration is desirable, it must be phased in gradually or U.S. agriculture and manufacturing sectors can literally be overwhelmed by the poverty and inherent inequities inherent in the Mexican system. By contrast, when Western Europe expanded the Common Market to include Spain and Portugal, standards of living differentials were substantially less and integration occurred relatively smoothly. One cannot assume the market will function flawlessly however when standards of living vary by 1000%. Often the analogy of the European Common Market integration of Spain and Portugal is used to show that there is some type of precedent for countries as economically diverse as the U.S. and Mexico to enter into a free trade agreement. But this example is flawed because the economies of Spain and Portugal are far more advanced than Mexico's. Currently, Spain has the world's 10th highest standard of living. The EC example, however, provides a precedent for slowly phasing in any type of trade agreement. Spain and Portugal will not be fully integrated into the EC until 1996. Sectoral concerns are addressed in the overall agreement. Certain industries are being integrated more slowly than others; some are provided with a good deal of protection in the process. The EC model also provides for a Social Charter to deal with job dislocations and social repercussions arising from disputes related to integrating the common market.

First, regarding income, Mexico's nearly 90 million people had an average GDP per head of $1,820 in 1987, compared with $2,020 in Brazil, $2,690 in South Korea, and $18,430 in the U.S. When actual purchasing power is factored into the equation, the standard of living of the average Mexican is well below a third that of a U.S. citizen. This income gap widened during the decade of the 1980's. Further, the gap between rich and poor in Mexico is among the worst in the world, according to figures presented in The Economist (Feb. 11, 1989). "In the 1970's in Mexico, the poorest 20% got 3% of total income, the richest 10% got 41%. In America, by contrast the richest 10% account for 23% of total income." Beyond this, in Mexico unemployment hovers at 18%, with some economists estimating underemployment at 40%. In a nation with over 1 million new entrants into its labor force annually, and no welfare system, vast pools of surplus labor abound. The wages of Mexican workers reflect the country's minimum wage in 1989 (at an exchange rate of 1,378 pesos per dollar) stood at about $5 per day. (In the U.S., the minimum wage is $4.25 per hour in April 1991). Mexican wage information, provided to me by one of the U.S. Big Three auto makers operating in Mexico, shows the labor cost advantages of production south of the border where the average manufacturing wage ranges between 57 cents and $1.87 per hour. (Chart 1)

Thus, the policy question for the future will be how to negotiate a trade agreements which recognizes these economic realities

while respecting the national interests of parties on both sides of the border.

What measures will a trade agreement set in place to assure improvements in standards of living on both sides of the border. Will adoption of an FTA assure proper treatment of Mexican workers? Will Mexican workers earn sufficient money to purchase the fruits of their own production? Or, will they be exploited? Will U.S. high standards in environment and safety, worker health and retirement benefits, and the right to freely and collectively bargain be encouraged in Mexico? Or will North American standards simply be lowered as the vast labor pools of Mexican workers become poorer in a system over which they have no control. Hopefully this is not what is meant by a "free" trade agreement. As one U.S. auto worker commented after visiting U.S. owned plants in Mexico: "President Carlos Salinas has said that (the Mexican) people had nothing until the U.S. companies moved to Mexico. Guess what Mr. President, with $7.50 average wage per day your people now have jobs but still have nothing."

What type of workforce will be created in Mexico? If current trends continue and low paying, labor intensive jobs are transferred to Mexico, Mexican workers will continue assembling products for export -- essentially to meet debt payments but not to improve their consumer society. Rather than learning skilled, manufacturing processes and management practices which can spur economic development, the Mexican people then would still operate as a low wage economy. There is no evidence to show that the investment that has occurred to date has helped raise their standards of living to purchase the very consumer products they are assembling.

The Condition of Workers

Mr. Chairman, no trade agreement with Mexico should be passed, certainly not on a fast track, if it ignores the serious conditions that exist in Mexico that can lead to exploitation of labor. Nor should it be passed if it disenfranchises U.S. workers of their rights to appeal unfair labor practices that arise as a result of this "free trade agreement." Now how does one define exploitation of labor: Pope Leo XIII defined it as "A small number of the very rich able to lay upon the teeming masses a yoke little better than that of slavery itself." And he continued: "Wages ought not to be insufficient to support a frugal and well-behaved wage-earner". The U.S. should not enter into an agreement where U.S. big business wins and the average U.S. and Mexican working man and woman loses.

To me, exploitation of labor includes the inability of workers to buy the products they are making. Included for the record is an article from the May 1988 Reynosa newspaper that details the average weekly earnings of a single working mother employed by a foreign owned plant in Mexico. She earns $24.35. The article details what her earnings can buy. She must work 1/2 day for a gallon of milk; one day for a pair of tennis shoes; 3 weeks to afford a toilet in her home which most families in Mexico cannot afford. (Chart 2)

No Member of Congress can put blinders on and support an initiative to expand trade and investment between Mexico and the U.S. without assessing short and long term impacts on the rights as cross border trade expands.

I would like now to try to speak further on behalf of the workers of both nations. With the average wage for manufacturing in Mexico hovering at 57 cents per hour compared to $10.47 per hour in the United States, one does not have to be a mathematical genius to estimate how U.S. jobs will be drawn further to the lower wages of Mexico. The trade statistics already reveal what has been happening as a result of existing U.S. investment in Mexico. Intermediate goods -- such as automotive and electronic

parts -- account for the greatest share of U.S. exports to Mexico ("Business America: World Trade Outlook", April 10, 1989). In essence, U.S. exports flow to Mexico for some value added segment of production, but then are reexported to the U.S. market.

The Maquiladora or "inbound" factories allow U.S. components and raw materials to be imported duty free into Mexico, where they are assembled into finished products and exported. If reimported into America, duty is assessed only on the value added in Mexico. U.S. imports from Mexico totaled $23.2 billion in 1988, an increase of 14.8 percent from the previous year. This increase can be attributed to growing imports of automobiles and parts, which increased by $556 million to $3.9 billion. Imports of television receivers totaled $556 million, an increase of $296 million. The pace of reexported goods is expanding exponentially. During 1988, the number of maquiladora plants grew by 16 percent, to 1,500, and are projected to grow by like amounts, or even greater. in 1989. The rate of growth of these plants has been phenomenal since the mid-1970's. In 1970 there were only 17 plants.

Most troubling is that the Mexican worker cannot afford to buy the goods he is assembling. I consider it morally wrong that Mexican workers cannot afford to purchase the products they produce in the transplants. For example, I saw autos and auto parts being produced in Mexico but none of the workers in the plant drove automobiles. In fact, there are no parking lots at most U.S.-owned Mexican factories. Mexican workers are bussed miles to the job by the company in the early morning and then bussed back at night to their humble, one-room dwellings in the shanty-towns. It often costs the workers $5.30 a week for this transportation out of a weekly wage of $25. It would take a Mexican worker over 7 1/2 years to afford to buy a car to drive to work if the workers entire wage was saved for the car. I would like to include for the record the observations of one U.S. citizen, Mr. Bob McCoy, President of UAW Local 710 during a visit to Mexico. Mr. McCoy's local has been directly affected by the work being moved to Mexico. The Modine Manufacturing Plant in Trenton, Missouri manufactured radiators for the auto industry. Dozens of workers there are on permanent layoff because that work is now being done in Mexico by Mexican labor. (Appendix 3)

I am including for the record personal testimonies by other U.S. citizens from Ohio, Missouri, and Oklahoma, who have travelled to Mexico to observe first hand what is happening with U.S. production in Mexico. (Appendix 5)

Many U.S. companies are trying to cut costs in the short term by heading south of the border. I have seen firsthand how this pattern has already been established in the maquiladora program -- the existing Mexican "free trade" initiative --which has drawn thousands of U.S. companies to relocate part or all of their operations in Mexico. It is estimated 1,700 U.S. companies have located in Mexico and employ 500,000 workers. (Chart 4)

The production that occurs in Mexico is generally performed by unskilled production workers, generally young, some in their teens, mostly women below 21 years of age, some as young as 14 years. Paying Mexican workers low wages with no benefits is an easy way, in the short-term, for U.S. firms to bring down costs. Of course, none of the Mexican workers had health insurance that would permit them to buy any of these appliances if they were sick and needed them. In Mexico, with one million new workers being added to the workforce annually, keeping people employed at any cost is preferable to masses of unemployed. In my judgment, many U.S. firms caught in a competitive battle internationally, are opting for cheap labor rather than investing here at home in research and development, education and training that could lead to long term productivity and quality gains here in the U.S. U.S. companies cannot ultimately be globally pre-eminent by

relying solely on short-term, low wage rates to bring down U.S. cost structures. A U.S. -Mexico FTA should not permit U.S. companies to turn their backs on the plight of Mexican workers' well-being.

Last year, when I asked one U.S. auto parts plant manager in Mexico whether the workers in his plant were covered by Social Security, he told me he didn't know the answer because "all he worried about was the bottom line". So much for social conscience. In the same plant, I saw young women spraying glue on small rubber rings and was told they weren't wearing masks because "they didn't like them and the wall fan pulled out the fumes anyway, didn't it?" In the same plant, men assembly workers pulled down huge steam presses to mold parts, but the machines had no hand guards or safety braces to protect workers from burns, accidents or losing their arms.

Let me reiterate. Any trade agreement must rise to the defense of the Mexican worker as well as the U.S. worker. Each will be asked to bear personally the cost of these market-opening measures as U.S. production relocates labor intensive operations.

I also visited a giant Japanese-owned SONY plant near Tijuana which employed approximately 1530 people, and where thousands of televisions were being produced, all for shipment out to the U.S.A.--none of the workers could afford to buy them, especially the 31 inch to 46 inch super screen SONYs that cost $2,000-$3,000 in the U.S. A Mexican worker in that plant would have to work at least two years to afford to buy that T.V. if all wages were saved for the T.V., and impossibility to say the least. These T.V.s are not even sold in Mexico because there is no market for them. For the record, the origins of the imported components used to assemble the TV's are: 63% from Japan; 29% from United States, 6% from Singapore, and only 2% from Mexico; 98% of the parts are <u>not</u> even made in Mexico.

For the record, I also present the personal story of Cindy Hudson of Evansville, Indiana, who had been employed by the Zenith Electronic Corporation. She earned $7 an hour. But Cindy along with 1,400 workers were thrown out of work when Zenith Electronic Corporation closed its Indiana facility and moved to Juarez, Mexico. (Appendix 6)

For the record, I am including the list of U.S. companies supporting a U.S.-Mexico Free Trade Agreement. Of course, it includes Zenith Electronics Corporation. (Appendix 7)

I find it appalling that working people in the U.S. who lose their jobs permanently and fall onto unemployment rolls as a result of relocated Mexican production are not even considered worthy of attention by the Administration. The U.S. Trade Representative's office has told us the U.S. workers' plight is not a concern in this agreement. Even eligibility for trade adjustment assistance -- which is an admission that jobs have been lost from the U.S. forever -- is not being included in this agreement. In my own home community of Toledo, Ohio just this past week, 250 Chrysler parts workers were laid off permanently. At the same time, a Toledo auto parts company that makes wheel well liners for the Dodge Aries Reliant K car shifted production to Toluca, Mexico. An auto worker in Ohio earns $17.27 per hour earns $1 an hour, has no retirement program, and cannot afford to buy a home nor a car. Why is the U.S. worker not a concern in this trade agreement? Why is the Mexican worker not a concern? Are workers expendable solely for the principal of unfettered trade by private corporations? A North American Workers' Rights Title should be included in any trade agreement, along with a fringe benefits standard.

<u>Worker Representation and Rights</u>
In Mexico, unions continue to be a stabilizing arm of the

government. Velasquez is still the leader, and as long as he remains in this position there will be no major change. Labor unions give some benefits to their workers, but they are also corrupt. Independent and dissident unions are more active, but do not give as many benefits to their members. They are more active in human rights and working conditions. They have been around a long time, and have developed a niche.

Capital Flight

One of the key aims of any FTA is to attract foreign investment capital. Yet, for many years Mexican capital has been fleeing that nation at record rates. The fact that Mexican investors are placing their funds outside of Mexico is most curious. Any FTA must be conditional on the return of Mexican capital back home where it is desperately needed. The U.S. cannot jump start an economy when the battery has no fuel cells. Mexican industry and its financial leaders must be encouraged to repatriate capital. the fact that Mexican investors are placing the largest share of their funds is most curious.

U.S. investment and the trade agreement should only be triggered by the return to Mexico of its expropriated capital at a certain level. Otherwise, it is conceivable that U.S. investment in Mexico will only partially replace Mexican capital that is fleeing the nation either because (1) financial markets there are unduly controlled by the government; or (2) capital and profits fleeing Mexico can be assumed to be money earned off the sweat of Mexican workers who will not benefit from their labor; and (3) the money is related to drug laundering. We know wealthy investors have taken profits from Mexico and deposited them across the border historically. One can postulate, if the trade agreement does not monitor Mexican and U.S. investment carefully, the U.S. investment that does occur will only be for purposes of exploiting cheap Mexican labor. Profits made will be returned to the U.S., thus exacerbating capital flight. During the last Mexican administration $80 billion in capital fled Mexico. This money, vital to development, significantly impeded economic growth. Capital flight has continued to undermine resolution of Mexico's debt crisis by permitting much of the new investment to leave the country.

While the Salinas government has attracted some foreign investment to Mexico, it has not succeeded in convincing Mexicans in large numbers to bring their capital back home. Because of the severe economic impediments to economic growth in Mexico, a free trade agreement must address the capital flight issue as one of the critical structural reforms necessary for real growth in Mexico. Otherwise, all that will result is throwing American jobs to Mexico without improving the conditions or life for the average Mexican or for Mexico.

Basic Political Freedoms; Border Inspection

"The proposed U.S.-Mexican free trade agreement could be a great opportunity, but only if the Mexican people have enough money to be a significant market for U.S. products," says Jerry Hagstrom, a contributing editor of National Journal and author of a forthcoming book on the politics, economics and character of each of the countries of Latin America. "The best way to be sure of their purchasing power is to be sure of their exercise of democracy. The only way I know to do that is to insist upon international observer teams at the next Mexican elections." Though distant observers can only speculate about the election in Mexico, enough questions have been raised about their legitimacy to warrant serious concern on the part of all democracy-loving peoples. A Washington Post story in July 1989, included here for the record, summarizes some of the continuing controversy that caused historian Luis Javier Garrido to observe: "Mexican elections continue to be a sham."

For example, in the state of Michoacan, the PRI, which has ruled Mexico throughout the last 20th century, claimed victory over the

PRD (Partido Revolucionario Democratico, or Party of the Democratic Revolution) in an election marred by numerous reports of fraud. Political analysts interpreted the Michoacan election as a sign that the PRI would not relinquish power in places where opposition would be bolster viable opposition candidates. (Appendix 9)

Beyond these basic issues of freedom, the role of Mexico as a drug corridor cannot be ignored in any free trade negotiation. A U.S. Customs Department report on July 26, 1989 stated: "Mexico continues to be a major producer of both opium and marijuana, and the single most active transit country for cocaine from South America. Similar to our experience with the Bahamas during the late 70's and early 80's, Mexico has become the northern anchor of an air bridge from the cocaine producing countries of South America. Shipments of heroin and marijuana, produced in Mexico, are moved from the laboratories and growing areas to stash sites near the border via commercial truck, rail, and private vehicles. "This volume of commercial traffic poses a significant inspection problem requiring a major commitment of human and automated resources. Mexico's status as a transshipment point for drugs also causes it to become a transit point for illegal profits from these drug sales; however, it is difficult for law enforcement officials to distinguish between legitimate money, capital flight, and the ill-gotten funds."

Any expanded trade between our national will result in greater requirements for border inspection. No free trade agreement should be approved without these protections in place. The Customs' Department continues, "Salinas administration has shown substantial changes in Mexico's approach to law enforcement at the federal level." But this massive problem continues.

Environmental Enforcement
Strict environmental enforcement must be assured, with international verification, as a condition of any free trade agreement. In Appendix 5, I have included testimonies from U.S. citizens that travelled to Mexico and documented many environmental abuses. For example, breaks in antiquated sewage lines in Tijuana forced beach quarantines for 307 days in 1981, 219 in 1982, 294 in 1983. The sewage problem was so acute in the Nogales area that both countries worked out a joint-financing arrangement for a sewage treatment facility. Raw sewage from the Mexican border town of Mexicali is dumped into the New River, a 120-mile waterway that flows into California. More than 20 kinds of pathogenic viruses and bacteria, including three strains of polio, have been found in the river. Testing of the New River has also found more than 100 industrial chemicals. The maquiladoras are believed to be a major source of these chemical contaminants. The river may well be the world's most polluted waterway.

Only a fraction of the hazardous waste generated by the maquiladoras are returned to the U.S. for proper disposal, despite a 1983 U.S.-Mexico treaty requiring the plants to ship their wastes to the U.S. A 1986 survey of 772 maquilas found that only 20 had notified EPA that they were returning toxic waste to the U.S., as required by law. Of these 772 plants, 86% used some sort of toxic chemicals.

According to EPA and Texas Water Commission officials, much of the toxic waste generated by the maquiladora industry is being illegally dumped in Mexico -- in dumps, down the sewer or local drainage ditches, or onto vacant land.

On January 12, the Coalition for Justice in the Maquiladoras, a coalition of more than sixty environmental, religious, community, and labor organizations, released findings from a study by the National Toxics Campaign. The data shows that Major corporations are responsible for widespread illegal dumping of toxic chemicals in sewer systems and waterways. For example, by analyzing samples taken from a General Motors facility in Matamoros, the

National Toxics Campaign has found that a chemical solvent called xylene has been dumped in extremely high concentrations.

In 1990, in the state of Chihuahua, with approximately 300 maquiladoras in Ciudad Juarez alone, there was only one SEDUE inspector to enforce the environmental laws at all maquiladoras and hundreds of Mexican-owned industrial facilities.(Appendix 10)

Agriculture

The U.S. Mexico Free Trade agreement will have a significant impact on the agricultural sector and on the safety of United States food supplies. In 1990, the General Accounting Office did a study about the safety and quality of imported foods and the presence of pesticide residues. The study looked at Five Countries in Latin America including Mexico. Mexico was selected because it provides most of the fresh vegetables, such as tomatoes, cucumbers, peppers, eggplant, squash and asparagus imported into the United States. In addition, Mexico accounted for the largest increase in U.S. imports of fresh tomatoes and broccoli between 1980 and 1986.

Mexico has not designed their food safety program to meet the United States import requirements. Mexico relies on a system that uses pesticides on the basis of its own climate, crops, and pest problems and will face a myriad of pesticide requirements. Produce destined for U.S. markets may consequently contain residues of pesticides that do not have EPA tolerances and that produce will consequently be rejected at U.S. entry points, with economic loss to the exporting country, its growers, and the U.S. import industry.

The GAO report found that multinational firms and experienced contract export growers who had access to information and technical assistance generally used pesticide management practices that considered US pesticide requirements. Any free trade agreement must follow these guidelines and require the uniform application of pesticide requirements to protect our nations food supply. To leave compliance with pesticide regulations up to the firms or the growers, will only endanger U.S. food supplies.

Further, American consumers must be protected from environmental hazards. If we are to allow the importation of more vegetables and fruits, then inspection must be increased at the border.

Any U.S.-Mexico Free Trade Agreement must take into account the little niches of the Fruit and Vegetable trade. U.S. small family farmers can be hurt immediately by an ill-conceived agreement. The effect will differ tremendously based on the commodity being traded and the region of the country the commodity comes from. For example, the southern states of Florida, Texas and California do not favor an agreement because they see an increase in exports of fruit from Mexico as a direct increase in U.S. competition.

Tomato and cucumber growers in this country, two major producers in my District, are opposed to a U.S. Mexico Free Trade Agreement because Mexico is a net exporter of these crops. An agreement that does not take into account these disparities and cushion the market opening process, will take away many markets to U.S. producers and increase their market vulnerability.

For example, in 1989 the United States imported 183,722 metric tons of tomatoes from Mexico. In 1990, the amount was 190,832 metric tons. During this same period, the United States exported only 859 metric tons in 1989 and 4,848 in 1990 to Mexico, a nation that cannot feed its own people.

In 1989, the United States imported 194,145 metric tons of cucumbers and in 1990 166,256 metric tons. The United States exported only 25 metric tons of cucumbers in 1989 and 26 metric tons in 1990 to Mexico.

Womens' Issues

A women's labor rights agreement should be instituted as a part of the overall agreement. In maquiladoras, women make up two-thirds of the workers. A study on female maquiladora workers in Nogales, Sonora, found that the incidence of low birth weight for babies of maquiladora workers was almost three times higher than among babies whose mothers worked in the business or service sectors. In addition, 52 percent of the maquiladora workers' low birth weight babies were born premature. At least 20 Mexican children (ages 10-14) whose mothers worked at P.R. Mallory's maquiladora electronics plant in Metamoros, Texas, have been born with similar physical deformities -- flat nose, close-set eyes, and thin lips -- and all are mentally retarded. The mothers all worked with highly toxic PCB compounds for long hours, often reaching into deep vats of the chemicals wearing only rubber gloves for protection.

Responding to FTA Proponents

Proponents of a fast track FTA offer several arguments that I would like to refute at this time.

"We'll Move to Asia" Threat

It is argued, one of the main reasons to support a U.S.-Mexico FTA is because if the U.S. doesn't, the jobs will move to Singapore, or to Asia. Those that favor a free trade agreement with Mexico argue that if we do not fully open the borders between the two countries, companies will move to South Korea or Taiwan instead of moving to Mexico. This is simply not accurate. Labor costs in Mexico are far lower than they are in Asia. In 1988, the average hourly wage for manufacturing industries as quoted by the Wall Street Journal was:

Mexico	$0.88
Taiwan	2.71
Korea	2.46
Singapore	2.67
Hong Kong	2.43
Japan	13.14
U.S.	13.90

Since then, wage rates in South Korea and other NICs have increased, while Mexican wages on a whole have decreased. In addition, the proximity of Mexico to the U.S. would keep transportation costs down for companies that want to move to find cheap labor.

Mexican Market Potential

Those who favor a U.S.-Mexico FTA argue that the agreement will create jobs in Mexico and enable Mexicans to purchase American goods and ultimately create economic growth at home. But as Richard Rothstein, a research associate of the Economic Policy Institute accurately points out in a recent article in the Los Angeles Times, low-wage markets are no bonanza. Mexican wages average less than $1 an hour and have been declining. "Consumers" earning pennies an hour don't consume very much beyond the basic necessities. When a $10-dollar-an-hour job in Detroit or Toledo is replaced by a 60-cents-an-hour job in Tijuana, it is ludicrous to suggest that either Mexican or U.S. workers will benefit. It is the companies pitting one workforce against another that will largely benefit unless worker protections are included and guaranteed beforehand in the agreement.

In fact, during the decade of the 1980's, Mexican consumers' purchasing power was cut by over 25%. Poor economic performance in the 1980's and an undervalued peso put disposable income per head at about $1,200 in 1987. Low consumer purchasing power is a gigantic barrier to those who claim an FTA will open markets to the U.S. Some markets will expand. However, because Mexico suffers from a highly stratified and uneven distribution of income, and a level of development far below that of the U.S., the size of the market is really small. Some estimate that out of a population of 82 million, somewhat over 10% or about 10

million people might be able to purchase consumer products. This falls far short of the economic boon some claim an FTA will produce. The hard facts indicate some U.S. industries and some Mexican consumers will benefit. But that benefit is nowhere near the optimistic projections of those who view this as a panacea for poverty, a unified American market, and free trade.

Outsourcing of Low Skilled U.S. Jobs

I find it intriguing to listen to some of the arguments that say America must upgrade its workforce by pushing low-skilled jobs to other places. My region of America is in deep recession. Millions of American workers in Detroit, Cleveland, St. Louis, Chicago, are locked into a hopelessness Washington power brokers cannot even imagine. You can add to that list Miami, Los Angeles, New York, Tulsa, Portland, etc. The U.S. has a tremendous need for millions of new jobs for unskilled workers to gain workplace experience and ultimately move up the opportunity ladder. By moving production to Mexico, U.S. companies are displacing thousands of U.S. workers and endangering America's industrial and agricultural base. Go to any unemployment office. Toledo's unemployment is now over 8% and rising. It is safe to assume the immediate impact of a FTA with Mexico will be felt in the U.S. by the additional elimination of hundreds of thousands more jobs.

Labor intensive sectors of U.S. production are more likely to shift immediately across the border to Mexico. For example, with such an agreement, the U.S. risks high losses or even the total elimination of manufacturing sectors in automobile and auto parts, electronics, apparel, fresh vegetables and toys. Job losses to Mexico are not uncommon in my district. For the U.S. as a whole, it is estimated 75,000 auto jobs have relocated to Mexico. (Appendix 8)

We could sure use those jobs in Toledo. I have witnessed U.S. companies threaten to move to Mexico if their employees do not concede to $2-4 an hour pay cuts or health benefit cuts to compete with the unregulated and "unbenefitted" Mexican production. Companies often prefer a slow erosion in the workforce to a plant closing, they quietly lay off workers permanently and relocate production.

Recommendations

There is precedent for addressing trade distorting practices in trade agreements. Thus, I recommend that the Ways and Means Committee, during the 60-day consultation period, seek specific assurances and a written commitment from the President and the USTR that any U.S.-Canada-Mexico FTA encompasses the following:

1) Comprehensive agreement For our nations to reap the mutual benefits of trade expansion despite our different national histories, trade must be a part of a larger strategy for growth and change in Mexico, and for adjustment in the US and Canada. Further general and sectoral trade provisions should be negotiated.

2) Rights of Workers: Acceptance in principle and recognition in practice that measures relating to employment must take fully into account the fundamental rights of workers under intergovernmental declarations, conventions, and agreements, particularly as they relate to the conduct of international trade. Countries that are party to a North American Free Trade Agreement recognize that all countries have a common interest in respecting the fundamental rights of workers and in the achievement and maintenance of fair labor standards related to productivity, and thus in the improvement of wages and working conditions as productivity may permit. Those same countries recognize that the systematic denial of the fundamental rights of workers and tolerance of unfair labor conditions, particularly in production for export, create difficulties in international trade. A social charter should be adopted attendant to this agreement. Further and accordingly, a North American Worker's

Rights title should be included in any trade agreement, along with a fringe benefits standard. Women's labor rights are to be equally attended to this title as well as trade adjustment for U.S. workers impacted by exodus of jobs to Mexico.

3) Environmental and Agricultural Standards: Acceptance in principle and recognition in practice that measures relating to the conduct of international trade must take fully into account fundamental environmental standards of concern to all inhabitants of North America. Member countries that are a party to a North American Free Trade Agreement recognize that all countries have a common interest in safeguarding the environment and in the achievement and maintenance of fundamental environmental standards necessary to protect human, animal, and plant life or health and in the conservation of natural resources if such measures are made effective in conjunction with restrictions on domestic production or consumption. Those same countries recognize that the systematic neglect of fundamental environmental standards, particularly in production for export, create difficulties in international trade, and accordingly, a tri partite national panel shall be empowered as a party to this agreement and take whatever action may be appropriate and feasible to eliminate such practices and conditions.

4) Trilateral Dispute Settlement: Establishment of a bilateral dispute resolution mechanism and corresponding powers to investigate, adjudicate, settle trade-related disputes, and to enforce settlements concerning the interpretation or application of the provisions of the FTA and brought either by governmental or non-governmental petitioners in either country on appeal after the exhaustion of all national remedies available to the petitioner(s).

5) Mexican Capital Repatriation: A Mexican capital repatriation standard should be adopted as a threshold to activate and sustain the FTA.

6) Election Observer Teams: International observer teams should be required at the next Mexican elections.

7) Expanded Border Inspection: Border inspection must be guaranteed and expanded to assure environmental quality and to stem the flow of illegal drugs across border.

CHART #1

Provided by: Chrysler Corporation in response to a request from Congressman Pease.

MEXICO WAGE INFORMATION

1987

Selected National Industries	P	$(Hourly)	Annualized
Average for all production workers	1,451	$1.05	
Additional compensation, bonus profit sharing, insurance (50%)	2,168	$1.57	$3,592
Vehicle Assembly	1,846	$1.34	
+ 83% for additional compensation, bonus, profit-sharing, social insurance	3,381	$2.45	$5,605
MAQUILLADORA PLANTS			
Average hourly + bonus	845	$0.61	
+ 32% social insurance	1,114	$0.81	$1,853
Transportation Equipment			
Average hourly + bonus	921	$0.67	
+ 28% social insurance	1,184	$0.86	$1,968
Per Capita GNP			$1,642

1989

Current Minimum Wage:

Area A (Baja, Juarez)--9,160 pesos/day
Area B (Guadalajara, Monterrey)--8,476 pesos/day
Area C (Veracruz, Pueblo, Oaxaca)--7,640 pesos/day

*For 1989, one dollar = 2,461.5 pesos

CHART 2

Statement of Wayne Freeman
St. Louis City C.A.P.

A single working mother employed in a Maquiladora (foreign-owned industrial plant located in Mexico) receives a weekly (48 hour work week) paycheck of 56,000 pesos ($24.35 U.S. dollars). A few weekly expenses include 12,500 pesos for rent; 1,500 pesos for water, and 5,000 pesos for electricity (19,000 pesos or $8.26 U.S. dollars). With the remaining $16.09 she must pay for food, clothing, school supplies, uniforms, etc. for herself and her four children. Her work is standing and pressing clothes 48 hours a week in a clothing factory which makes shirts. She suffers from swollen feet. There is no provision for drinking water; workers stoop to drink from a bathroom faucet.

For each of the products below, you would need to work "so-many" hours (based on minimum wage salary) to purchase the item. This from May 1988 Reynosa newspaper.

Item	Amount	Pesos	Hours to work
Fish	2.21 lbs.	2,199	2.2 hours
Canned Corn	400 grs.	1,780	1.5 hours
Instant Cofee	200 grs.(7oz)	6,570	5.6 hours
Tang	680 grs.	4,999	4.3 hours
Milk	1 gallon	5,100	4.4 hours
Corn Flakes	340 grs.	2,275	1.9 hours
Wieners	2.2 lbs.		6.6 hours
Beer	6 pack	3,999	3.4 hours
Ham	2.2 lbs.		13.3 hours
Pork Chops	1 lb		4.3 hours
Shampoo	1 ltr.	3,998	3.4 hours
Toothpaste	150 mi	3.998	3.4 hours
Paper Towels	1 roll	1,500	1.3 hours
Child's Sun Suit		20,900	10 hours
Toaster		31.500	27 hours
Toilet		169,500	145 hours
Deoderant		1,995	1.7 hours
Fan			64 hours
Toilet Paper		1,799	1.5 hours
Mattress	Double		151 hours
Tennis Shoes		9,990	8.6 hours
Women's Dress Shoes			30 hours

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Mattress	Double		151 hours
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Women's Dress Shoes			30 hours

Appendix 3

STATEMENT OF MR. BOB McCOY
President of local 710
January 1990

Unless a person has the opportunity to actually see for themselves how the Mexican workers are exploited and the living conditions that actually exist, I am not sure anyone can write words that depict graphically enough these conditions to readers and the problems that are being created along the U.S. - Mexican border.

Workers are paid from about $.50 to $1 per hour depending upon the plant, and [they] are paid in Mexican currency. Management personnel are paid in U.S. money and based upon U.S. monetary value for their positions.

Upper management lives on the U.S. side of the border and travel into Mexico daily to work in the plant. Parking lots at the plants only exist for management personnel. The hourly work force must ride public transportation or walk to and from work.

The management personnel of the plants are proud of the wages they pay the Mexican workers, but do not want to be paid on a proportional wage scale in Mexican pesos.

Living and housing conditions are like nothing I have ever seen in the worst ghettos of this country. Whole families living in small houses or shacks no larger than 8 feet by 12 or 16 feet in length. No running water into the houses and no sewer system to remove waste from the houses. Women washing clothes by hand in metal was tubs with old fashioned scrub boards. Old outside toilets along public roads and drainage with human waste flowing into those drainage ditches. Little houses an plots of ground with sheep, cattle, horses, etc. in the yards of these houses where people live.

Contamination of water, air, and the environment of Mexico by the Maquiladora plants from use of and dumping of hazardous and toxic chemicals. With the dumping of solvents, cleaning agents, and chemicals of all types by these companies, the environment of Mexico is being polluted which has an impact upon the Mexican population's health. No one knows exactly how many birth defects, deformities, and miscarriages are caused by the contaminated water the Mexican people are exposed to. Some toxic chemicals are transported back to the U.S. putting undue burdens on the U.S. landfills and disposal systems. And in other instances, hazardous and toxic chemicals are dumped into the deserts and the city sewage systems in Mexico, as limited as they are.

UAW Local 710 has been directly affected by work being moved to Mexico in the last couple of years and that being the Modine Manufacturing plant in Trenton, Missouri that manufactures radiators for the auto industry. This plant has about 80 people permanently laid off (about 1/3 or 33% of that plants work force) because that work is now being done in Mexico by Mexican labor.

This was done when the Ford Motor Company built a new plant in Mexico and decided to build their own radiators that had been supplied to them by Modine Manufacturing Company.

Therefore, we must all work through the political areas to insure that our elected officials in Washington, D.C. do not allow U.S. corporations to take our jobs to Mexico our anywhere else in the world so that the corporate executives can continue to receive exorbitant and unjustifiable wages and bonuses for themselves while American workers are out of work and the Mexican workers are exploited.

CHART 4

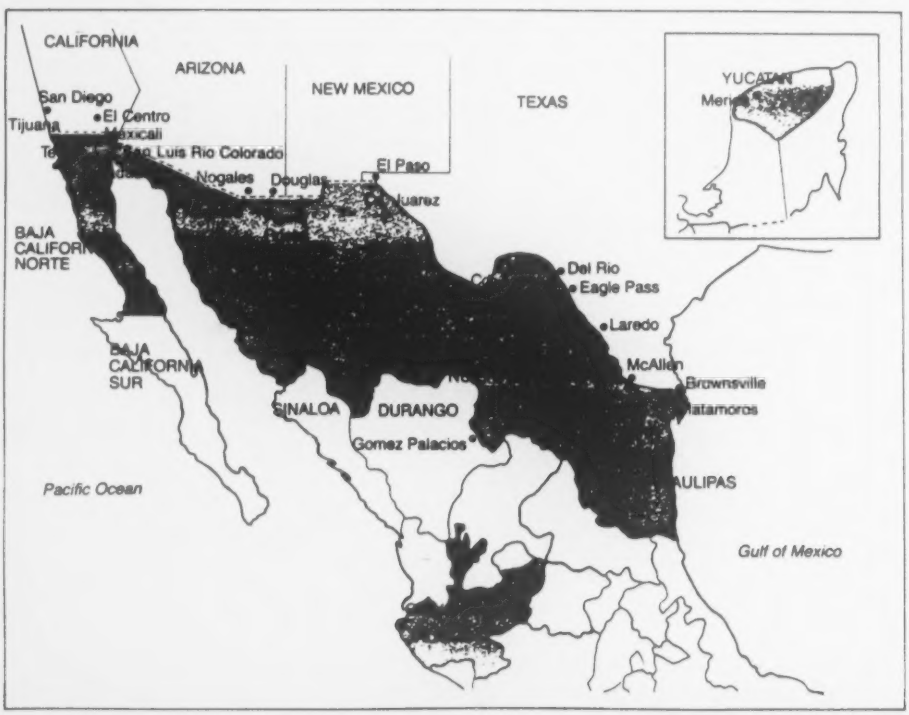
MONTHLY SCORE BOARD

Each month we will update the score (to the best of our knowledge) of maquiladoras in each city of Mexico. The reason is that we receive so many inquiries about how many maquila plants there are and where they are located. If we are not correct, please contact us with the updated number.

Thanks for your assistance.

1	4	6	0

	CITY	NO. OF MAQUILAS		CITY	NO. OF MAQUILAS
1	Tijuana	334	12	Matamoros	72
2	Tecate	46	13	Monterrey/Nuevo Leon	34
3	Mexicali	131	14	Torreon/Gomez Palacios	29
4	San Luis Rio Colorado	5	15	Cd. Chihuahua	61
5	Nogales	54	16	Hermosillo	5
6	Agua Prieta	28	17	Guaymas	3
7	Cd. Juarez	290	18	Merida	2
8	Cd. Acuna	32	19	Guadalajara	11
9	Piedras Negras	30	20	Ensenada	33
10	Nuevo Laredo	67		Other cities	114
11	Reynosa	43		TOTAL	1460



Appendix 5

STATEMENT OF CINDY STEPHEN
RECORDING SECRETARY, UAW LOCAL 1999
January 1990

Along the border of the United States and Mexico stretches 1,700 miles of advanced high tech factories. They call these complexes "Maquiladoras" which means milling. Substandard wages and corporate greed are the main reasons why corporate America is moving south of the border. To get a clearer picture of what is happening, let's divide this topic into sections - plants, wages and people.

Matamoros is a city just over the border from Brownsville, Texas. Matamoros is a boom town of industrialization. There are over 75 American industries there with the number still growing. Zenith, AT&T, and Trico are a few other well-known names to the American worker.

I visited one of the General Motors plants. Remir, which makes the facias for "A," "B," "G," and "F" car bumpers. This plant, which was built in 1981, is of high tech quality. Remir employs 1,200 workers, of which 90 percent are women in their early 20s. The wage at this plant, including benefits, is $1.75 an hour. The average wage for a Mexican worker is 86 cents per hour.

The wages in Mexico are the lowest in the world. Workers in Hong Kong receive two times as much as Mexican workers; Singapore receives two and one-half times as much, Taiwan three times as much and Korean worker receive four times as much. The breakdown, per hour, is as follows: Korea, $3.65; Taiwan, $2.95; Singapore, $2.30; Hong Kong, $2.05; Jamaica, $1.25; Costa Rica, $1.05; Dominican Republic, $0.95; Mexico, $0.89.

When I toured the plant, I noticed you could see your reflection on the floor. I was quite surprised that the facility was so clean, unlike many of the other plants I had heard about. There were two things that struck me oddly. One, the number of workers on a job (five or six) and two, the way they were dressed - high heel shoes and silk dresses. I questioned by tour guide, who happened to be a member of top management, do your workers always dress like this and is the facility always this clean? Yes was the reply, but something told me different. Later on, my instinct proved correct. The workers are kept overtime to clean the plant and told to wear their best for visitors. The floor that was so shiny was coated with a high gloss wax. Sound familiar?

C.T.M. is the union in the plant. There is only one steward in the plant and he is allowed only 20 minutes to take care of any problem. If management needs five workers, they call the union hall and the union sends over usually t[illegible].

One of the workers, who worked at the Zenith plant, told us

about the working conditions there. She stated that management never told the workers of the dangers of working with lead-based solutions until the women started bearing deformed children. She said the plant has two floors with no extractors and that sometimes the smoke and fumes are so thick that you cannot see very far. Workers clean there machines with water, soap, and acid, which are disposed of outside the plant. When it rains, the streets along this plant flood with raw sewage and waste. The plant has grates along the floor which are filled with rats. Many women have gotten electrical shocks because they stood in spills on the floor while operating their machinery. Workers are allowed to use the restroom once a day.

A worker from the Trico plant told us about a gas leak. Employees started complaining of dizziness and being nauseated, but management would not permit them at first to leave the building. When management finally permitted them to leave, the conditions had worsened and the exit to the plant was a block away. The workers stayed outside for an hour before the plant said the leak was fixed. When the workers returned, the leak had not been fixed and the fumes were even worse. Many of the workers fainted, so finally the employees called for ambulances. When the ambulances arrived at the plant, they were refused admittance. Management even went a step further. They cut all the phone lines to the outside so that no one could call for help. Luckily relatives of some of the employees on the outside of the plant called the police. The police were also refused admittance by the guard at first, but finally they and the ambulances were allowed in and the workers were taken to the hospitals. It was learned that many of the pregnant women workers lost their babies.

Another worker told us how they used a solution to clean grease off their hands and arms and were never told that it contained lead. She said all of the warning labels on the chemical bins were in English, so they had no idea what they were using or what warning it gave.

To listen to these workers explain their plight in these plants is appalling. Keep in mind that these are American firms with American management in charge. Over 75,000 jobs have been directly lost to Mexico and there will be more if something isn't done to stop the corporations from running away from the rights of workers.

STATEMENT OF JOHN KNOWLTON
CHAIRMAN, OKLAHOMA UAW STATE C.A.P. COUNCIL
January 1990

I recently visited the General Motors Inland plant in Matamoros, Mexico. When we arrived at the plant, we were ushered into a very clean, air-conditioned room. The Plant Manager and Operations Manager told us that the plant was eight years old, had 2,630 employees working on two shifts making dash panels and steering wheels and they had just received the General Motors award for Mark of Excellence. They also told us that the average age od their employees was 19 years old, with 60 percent women and 40 percent men. The pay was $1.23 per hour, the highest in the Maquiladora area, and they were paid in cash on Friday at the end of the shift. (For 56 hours, a total of $68.88 US dollars.) The Delco plant across the street paid their workers 48 cents per hour. We were also informed that only three percent of their employees could speak English and most had little or no education.

At this time we were divided into groups of ten for a tour of the plant. As we entered, we went though a double set of locked doors where their was a large billboard with each employee's picture, name and number of days that employees had been absent during the past year. Next we went to the work area where we were told that they build dash panels at a rate of one every 17 seconds. While watching employees work, we noticed that most were very young girls and that they had no power tools. Many had wrists that appeared to be swollen. When asked about the girls' age, the Operations Manager said that they didn't have birth certificates, so they had to accept the employee's statement on application for employment. We were told that the plant had 80 percent turnover of employees per year, with most not working more than 89 days.

Employees are given 30 minutes for lunch and a ten minute break during the first part and last part of the shift, however the employees are not allowed to leave their work station. Employees can only go to the restroom once a day during work time and can only talk about job-related subjects during the work shift. Also, they have bottled water of which they could only have one very small cup at a time.

As we walked through the plant, we noticed that there were no trash cans, so we asked why. We were told that they were not needed since employees are not allowed to smoke, chew tobacco or gum, or eat in the working areas, and any waste paper was carried by the boss to an office and put into a trash can. We asked what happened if an employee got sick or hurt while at work. We were told no one gets sick at work and if someone gets hurt, they are allowed to leave as there was no medical help available.

As we continued through the plant, we noticed many safety and health problems such as girls using double-edged razor blades to trim excess from dash panels and when working in salvage,

removing plastic from steering wheels. Employees were not furnished box knives, gloves or rubber finger tips.

As our trip through the plant was coming to an end, we saw two employees working on the conveyor system. One employee was standing on the conveyor chain with a crowbar and hammer working to free the chain as it was hung up. One of the visitors in our group noticed that the power to the conveyor was still on while the employee was working on it. When asked about this, he was told "well, if we lose one, we'll just get another to replace him."

As we returned to the room at the front of the plant, one of our group pointed out that we, as well as everyone else, had been locked in the building by a double set of doors. A question was asked, what if they had a fire or some kind of problem within the plant, how were employees to get out. We were informed that only bosses had keys and they would open the doors. When we arrived back at the room were we had started from, we were told they would answer other questions. Some of those questions and answers were as follows:

How does an employee get to and from work? None of the employees have transportation. They ride small buses to and from work at a cost of 25 cents each way.

We were told that each employee supports six to seven other people and doesn't even live in what is known as slum areas. Most of the employees live out in what is known as the bush area, where they tie cardboard around bushes and call that home.

A final question was asked, was there any chances that wages could be raised? The Plant Manager told us that the people were happy with the present wages and that federal law would not permit a raise.

At this time we got back on the buses and toured some of the other plants in the area, including AT&T plant. Some 400 employees at the AT&T plant in Oklahoma City are losing their jobs to the AT&T plant in Matamoros. After a short trip to the market area, we returned to South Padre Island.

STATEMENT OF SUE KING
VICE-PRESIDENT, UAW LOCAL 317
January 1990

In the electronics plant that I visited in Matamoros, the Company told the UAW members that they paid their employees 45% above the minimum wage. That might sound good, but when you get the pencil to that, it comes out to $0.72 an hour, or $5.76 per day. Now, let's subtract what it costs to work. The bus trip to and from work costs $0.25 each way. Breakfast and lunch is served at the plant, if the employees wish to each there. The meals are approximately $1.25 each. Union dues of 4% are automatically taken off the top. This leaves $2.18 per day for the workers to live on.

The government and the labor union provides apartments; however, to qualify, one must make three times the minimum wage. This disqualifies the assembly worker, who resorts to the colonies, wooden shacks with no plumbing and no electricity. The government provides child care, but the salary qualifications of three times the minimum wage also applies. Henceforth, again, only management qualifies.

STATEMENT OF SHIRLEY CORTEZ
FINANCIAL SECRETARY, UAW OKLAHOMA STATE CAP COUNCIL
January 1990

I have decided to write about how I felt as a UAW member and also as a woman working in the labor movement.

When we went to Mexico I was angry that the Mexican workers were putting my American brothers and sisters out of work. Now I look at it differently. It's not the Mexican workers at fault. They are only trying to support their families and their is nothing wrong with that. I am upset with our government and the Mexican government.

The big corporations are as much to blame as the government. In Mexico you can see General Motors plants, AT&T facilities, and many other big corporations making the same thing we make in America, but exploiting the Mexican workers. These big companies are investing our American dollars to build plants. The reason, they can get cheaper labor and the Mexican workers are easier to manipulate because of lack of education and jobs. The workers have not been exposed to the Company (management) treatment in Mexico. They are just thankful to have a job. They will learn the hard way like our brothers and sisters before us. If we did not have a Union(s) here in America, we would be treated just like the Mexican workers.

I noticed that most of the workers in the plant I toured were 75 percent women. When I asked a member of Management why, they replied that the jobs were set up more for women, and they could do the job easier. Basically, I feel that Management thinks that women can be weaker when standing up for their rights. With the culture of Mexico being seemingly "reversed," the divorce rate has gone up. The average age of most of the workforce was between 14 and 20 years of age.

I wish you could see how the Union represents the Mexican workers. The people in Mexico, if they want a job, must apply through their Union. The Union hires you. If you have a problem with Management you talk to the Union, and if they agree that you were wrong, the Union fires you! Basically, the Union and the government are like the Mafia. Talk about big union bosses - they do exist in Mexico.

In light of these atrocities, I have committed myself to do everything in my power to see that fair trade laws are enacted so that we as Americans can earn a decent living and so that our foreign brothers and sisters will not be exploited by these big corporations and their government.

STATEMENT OF PAT RAMSEY
COMMUNITY SERVICE COMMITTEE
UAW LOCAL 2250
January 1990

Sexual harassment is one of the most prevalent types of pressure placed on women in predominately male workplaces. In Maquiladora, women make up two-thirds of the worker, while men make up 90% of supervison.

As I started through one of the plants, I was amazed the way the workers were dressed. They looked like they were on their way to church. The women in dresses and high heels, the men in dress slacks and white shirts, but there they were, working on the assembly lines just like you and I. I wondered why?

They say there is no dress code, but it became clearer to me as I listened to three Maquiladora women tell their stories. It's called the "Queen of the Maquiladoras." Management has a contest between the women workers, and if you are real pretty, and do what the managements ask you to do, then you may become their queen. They even ask for special favors; if you don't do them, you get placed on a harder job and maybe even fired.

One exciting effort being supported by the American Friends Service Committee, is the organizing being done among workers in the "Maquiladora" assembly plants!

The results prove otherwise. Women workers meet together informally to:

1. Share feelings,
2. Understand the effects of workplace contaminants,
3. Study their rights under Mexican law,
4. Define problems,
5. Strategize on tactics for solving problems, and
6. Gain courage from role-playing and companionship.

The continuity of the meetings has a cumulative effect on women workers, resulting in the development of courageous and informed leaders and inconspicuous but effective organizers in the work place.

The UAW recognizes the sexual harassment is still a pervasive problem in the workplace. Our goal is to eradicate it, as well as all other forms of sexual discrimination through the continued education of our own members.

STATEMENT OF WORLEY BINGAMON
CHAIR, GREATER ST. LOUIS UAW
RETIRED WORKERS COUNCIL
January 1990

I recently returned from Matamoros, Mexico, where I had the opportunity to tour the General Motors Inland plant where they make brake hoses, steering wheels and instrument panels. The thing that shocked me the most was that the plant only hired very young girls. GM management claimed the average working age of their workers was 18 to 19 years old. When talking to those workers who could speak English, I found out that many of the girls were only 13 and 14 years of age. There were very few men or older women working in this particular plant.

The plant I toured was very clean. Some employees said they had to clean things up when they heard we would be touring their plant. During the tour I went into one of the employees restrooms. The restroom was a disgrace, bug infested and dirt everywhere.

The overall living conditions were like that I had never seen before. The water pollution is terrible in the area that I toured; you cannot drink it. The wastes from these Maquiladora plants flow into the water supplies without any type of waste treatment, the reason being that since they don't have to spend any money on sewage treatment, the products they produce are cheaper yet.

Most homes around the Maquiladora Plants are nothing but wooden shack with no water or toilets. Many of the children that I saw around these homes were without clothes, and many looked as if they needed medical attention. The main streets were paved, but most side streets were unpaved with huge potholes in them, making the area very dusty.

So that you might better understand this poverty, a worker in a union shop averages about 52 cents per hour. In a non-union Maquiladora, the worker makes an average of 20 cents per hour. The average Mexican worker makes $24.25 a week or 56,000 pesos. Average weekly expenses are 12,500 pesos for rent, 1,500 for water, and 5,000 for electric. Subtract these expenses and that leaves $16.09 for food, clothing, and other necessities for life. I could go on and on, but I believe you get the picture. These workers are being terribly exploited.

STATEMENT OF VICKE LYONS
DISTRICT 20 ALTERNATE
UAW LOCAL 2250
January 1990

The people who work in the Maquiladora plants in Mexico are working in unsafe conditions, and their living conditions are some of the worst I've ever seen in my life, very depressing to say the least. And our multi-billion dollar corporations are feeding on this, making triple times the amount from their imported products, at the expense of the Mexican people, and U.S. workers. They are steadily giving away our jobs, and profiting off an average wage of 54 cents an hour to Mexican workers. Some General Motors plants in Mexico pay a whole 76 cents an hour; thoughtful of them, isn't it?

Can you imagine that coming into work would be the cleanest and nicest place you could go, even better than home? This was the explanation we were given on our tour, as to why the workers were dressed in their Sunday best. Most of the women were wearing dresses and high heel shoes. This is because they go home to shacks, to put it politely. Some without doors, windows without glass, just curtains hung over the opening. Some of their homes were about the size of two of our team centers put together, with as many as three or four families living in them, a very heartbreaking site indeed.

STATEMENT OF profiting
DIRECTOR, UNITED AUTO WORKERS REGION 5
NOVEMBER 29, 1989

In a recent trip to Mexico, I had the opportunity to examine many of "Maquiladora" complexes, large and what I consider runaway American-owned plants clustered on the Mexican side of the 1,700 mile border. These facilities are evading United States environmental laws, as well as health and safety standards. These facilities were originally constructed in response to Mexico's plea for help in relieving the massive unemployment problem facing Mexican rural labor.

This program was sold to Congress and the American people as a "twin plant" program with an equal number of production facilities and an equal number of jobs on each side of the border. But in a 1987 study by the International Trade Commission made clear that the concept was an illusion with few U.S. counterparts for the Mexican assembly operations. The International Trade Commission said these jobs are concentrated in so-called "foreign trade zones" and primarily involve "storage and distribution rather than manufacturing.

When the program started two decades ago, it involved on 57 plants employing 4,200 Mexican workers. The number rose by the mid-1970s to 300 Maquiladoras with 30,000 employees, most of them young women and girls, not the displaced rural workers it was supposed to employ. Today, over 300,000 Mexican assembly workers in more than 1,000 plants labor for substandard wages and working conditions in the Maquiladoras, taking jobs once held by some 125,000 American workers.

STATEMENT OF MR. JACK HEDRICK
UAW Local 249
January 1990

The word Maquiladora means "Mill of Gold", and it has proven to be exactly that for the multinational corporations. The Maquiladoras started in a 1900 mile area along the U.S. and Mexican border 26 years ago. In 1970 there were 16 plants, by 1980 there were 620 plants, currently there are 1660 plants employing an estimated 650,000 workers. Of these 1660 companies over 94% are United States companies such as AT&T, FORD, GM, CHRYSLER, ZENITH, TRICO, UNION CARBIDE, FISHER PRICE, and many many more, the list is endless, if you can name a company, then it's there! The maquiladora industry has a growth rate of over 60% per year, which means, the larger they grow, the faster they grow.

In early November [1989] I had an opportunity to attend the Maquiladora Awareness Conference in Texas and tour several U.S. plants in the Metamoros area of Mexico. I was totally appalled by what I saw. I saw a very young work force made up of over 90% young women 11 to 19 years old. I saw industrial waste and raw sewage dumped into the Rio Grande River which is a natural boarder between the U.S. and Mexico. The plants we toured there were, Inland GM, Philco, and Trico. These plants were no more than large modern sweat shops. In Inland GM, I noticed a total lack of safety. I saw young women soldering with over 44% lead without any ventilation or safety equipment, caustics being used to bath parts, but workers loaded and unloaded parts bare handed, no guards, safety cages, or rail on any machinery. Several days later I went back into Metamoros area with one of the Mexican people which I have been working with for the past several years and toured Metamoros from end to end. I saw how the U.S. salary people live, they live very well, their homes average about 1500 square feet, two cars, one with U.S. license plate and the other with Mexican plates, large walls enclose entire house and yard, but workers for the same companies live in total poverty. Housing for the workers consists of a one room house, very few have running water or electricity or any type of sewage systems. Most carry water from the same rivers that the U.S. companies dump their waste into. While in Metamoros, Mexico, I gathered 18 different water samples from different areas and community wells. Several have been tested and what I found was elevated levels of Arsenic, industrial solvents, high levels of lead, and numerous other harmful chemicals.

STATEMENT OF GARY HARVELL
President
UAW Missouri State C.A.P. Council
January 1990

Imagine if you can, that you work a nine or ten hour day in this new factory for General Motors, one of the biggest and wealthiest corporations in the U.S. The plant is just a few years old, the plant is clean, well lighted, and even air conditioned. Your job is not real hard, but tedious, and most of your co-workers are young and female like yourself. At the end of your shift in this new General Motors plant, you now must go home to your one room shack and try to figure out what you will feed your family for supper. You don't have much of a choice when you have only made $4.50 for a complete shift at the new General Motors plant.

Sounds hard to believe doesn't it? But that is how many Mexican workers, just a few miles from Brownsville, Texas, work and live in Metamoros, Mexico. Just because these poor wages are being paid in Metamoros, Mexico, doesn't mean the wages go any farther than in the U.S. The cost of living in Metamoros is almost as expensive as in Brownsville.

Being an auto worker myself, working for Chrysler Corp., I found it very hard to believe that workers doing jobs similar as we do in the U.S. plants, have to live in such terrible conditions. It is very easy to see why a person would rather be at work than at home. In some of the homes I visited there was no running water, no sewage, and in some cases no electricity. Glass for windows and doors must be at a premium in Metamoros because most windows and doors were wide open.

It's obvious that the workers in the Maquiladora Projects are being exploited by the big U.S. Corporations. It is also evident that many of the jobs were once being performed by workers in the U.S.

STATEMENT OF DENNIS SPIER
Vice President
UAW Local 136
January 1990

The Bush Administration wants to help [President Carlos] Salinas revive the beleaguered Mexican economy and pay its staggering world debt, although the U.S. is the largest debtor nation in the world. Salinas says, "Our people had nothing until the U.S. companies moved to Mexico. Guess what Mr. President, with $7.50 average wage per day your people now have jobs but still have nothing.

Now Chrysler has further said it will increase its production of LeBarons at its plant in Toluca, Mexico.

MAQUILADORA SPECIAL REPORT
UAW Region 5
January 1990

"We have Good Where We Live"

Ever try sleeping in a 8'x 9' room with seven other people. It is no fun. Just try standing in there, it's even harder lying down. After working hard all day in the Maquiladora plant, laying down under some sort of roof is about all the workers can expect.

The cardboard shacks that dot the countryside usually consist of one or two rooms that are crowded with people. Most of the cooking is done outside, so the "house" is used for sleeping and changing clothes and storing whatever possessions the workers have.

Furniture is scarce with tables, chairs and a few chests being about all the shacks contain.

There a re few bathrooms as we know them. Instead outhouses dot the landscape. The laundry is done outside under a tree in a washtub. Water is carried from the open ditch, which needless to say, is not too clean.

Raw sewage runs along the streets. People are hired to haul the sewage away and dump it out in the open countryside or maybe in someone's backyard if they are not looking.

Even the slums in our large cities are not nearly as bad as the conditions in the Maquiladora towns surrounding the factories we visited. Things may be bad here, but they are worse there.

Help is needed south of the border, but just supplying jobs that pay next to nothing is not helping the problem.

STATEMENT OF PAT RAMSEY
Community Service Committee
UAW Local 2250
January 1990

They are called los ninos de la Mallory - the Mallory children - and they are remembered as the legacy of one of the first American Companies to open a 'Maquiladora'.

Their noses are wide and flat with little bridge to them, their eyes are close set, and their lips are thinner than most children's. They are mentally retarded, their handicaps ranging from mild to profound, and their mothers? - All were employed at Mallory Capacitors, all pregnant at the time, and all working with PCB for long hours, often reaching into deep vats of toxic chemicals wearing only rubber gloves for protection.

American manufacturers say that they meet or exceed American standards on the environment and safety in the work place. Over here we as workers are asked to trust the process - while the workers over there don't know not to trust the process. They had rubber gloves, but were not warned of the dangers. Besides the rash, known as chloracne, the workers fingernails turned black. A classic reaction to PCB exposure.

Did PCB exposure also cause mental retardation of the Mallory children? At the school in Metamoros, where about 200 students with various physical and mental handicaps attend, "about 70% of them" are children of women who worked in Maquiladora.

The Mallory plant is long gone; but some say it left a grim legacy. "THE CHILDREN LIVE ON".

STATEMENT OF MR. DAVID BENNER
Plant Shop Chairman
UAW Local 136
January 1990

Families living in squallor, in dwellings that housed two and three families in an area the size most of us park our cars at home.

The average wage was 9,000 to 10,000 pesos a day. At the [then] current exchange rate of 2500 pesos equals one American dollar, putting the average wage at $3.60 to $4.00 PER DAY. This was hard to imagine.

It is time to think of the Mexican workers who are exploited, [and] of the governments, Mexican and American, that can permit and endorse such treatment of human beings.

IUE member Cindy Hudson, with husband Roger, a Teamster and son Brent, tells about losing her job when Zenith shifted television assembly operations to Mexico.

'American firms relocating to the Maquiladoras reap special tariff breaks, evade U.S. wage and hour laws, nullify existing union contracts and evade U.S. health, safety and environmental laws.'

Couple finds there's always someone who'll work for less

Evansville, Ind.

The bottom began to fall out for Cindy and Roger Hudson in 1986, just when life seemed its rosiest. Married 10 years, they had a home, a two-year-old son, and what they thought were secure jobs in unionized shops.

Then Roger, a Teamster with 13 years' seniority, was laid off from his $9 an hour job at a steel fabricating plant when the business moved overseas.

A year later, Cindy, who was earning $7 an hour after 18 years' service, drew her last paycheck. She was one of 1,400 workers thrown out of work when Zenith Electronic Corp. closed down its television assembly operations here and migrated to Juarez, Mexico. Although the maquiladora employed three times as many people, Zenith reaped an overall payroll savings bonanza of $300 million a year in the process.

What followed was a period of stress and disillusionment as the Hudsons struggled to keep their heads above water.

Roger trained as an optical lab technician and landed a job at $4 an hour. With the cost of dress clothing required for the new job, "we actually went into the hole," Cindy says. When he came up for testing to get a raise, Roger was laid off and replaced by a new hire making even less.

Then Zenith shut up shop. An officer of Electronic Workers Local 849, Cindy helped negotiate the last contract before the closing. "We offered to do anything to keep the jobs in Evansville," she says. "We were not given the opportunity to do that."

Cindy is understandably bitter. "It was bad enough that we lost our jobs, but how could they do that to the Mexican workers? Thirty cents an hour and a hot meal? It's the same as slavery. I just felt you don't do that to other people."

While waiting for her unemployment compensation to start, they lived on Roger's $109-a-week in jobless benefits—Indiana's benefits are among the lowest in the nation. They were denied food stamps because they had savings (less than $1,000) and were homeowners, even though that entailed the burden of a mortgage.

"We had to work too hard for our home to give it up," Cindy says. Somehow they scraped by. "It was really pretty rough."

Cindy entered a Private Industrial Council "training" program. "It wasn't really any training. It was two weeks of how to conduct yourself in a job interview," she recalls.

There was a job sign-up session once a week. But, she says, they didn't list the available jobs until late afternoon, and she had to pick her son up at the day care center by 3 pm. "When I complained about this, it just seemed they were just playing games. The more I hassled them, the less help I got."

In November 1987, Roger got a $5-an-hour job at what was regarded as a well-established, family-operated lumber company. "But it seemed we just had a dark cloud over us. They went out of business just a few months later," Cindy says.

Roger now works at an aluminum foundry. He started under a manpower program at $4.50 an hour with no benefits; now he makes $7.60 plus benefits. Cindy, still unemployed, says that when their son Brent starts kindergarten in the fall, "then I can accept a lower-paying job instead of just working for day care."

Hoping they've lived through the worst, Cindy looks back and says:

"We just existed. That's all we did. People say to me; 'If you really want a job you can find one.' We used to say the same thing. But it's just not true. Even the service jobs, there's always someone who'll work for less."

and crush strikes. On-the-job safety regulations are virtually nonexistent or rarely enforced.

Among the harsh and unfair conditions these workers endure include:

- Denial of information on chemicals used in the workplace.
- Machinery that lacks safeguards to prevent accidents.
- Lack of protective clothing and equipment.
- Intimidation through threats of job loss or wage cuts.

The record is replete with instances in which babies born to women in the maquiladora workforce have been malformed or retarded because of on-the-job chemical exposures; women who have suffered rashes, nausea, headaches, stomach problems and a host of other illnesses caused by working with toxic chemicals; a case where only two pairs of goggles were provided on an assembly line where 50 women solder electronic parts, and the absence of extractors to draw off noxious fumes.

While Mexico is belatedly enacting statutes on the use of hazardous material in the workplace and the disposal of toxic wastes, they fall far short of the standards in force in this country. Moreover, the Mexican laws are largely window dressing. As the U.S. Commerce Dept. said in a recent report:

"The development of technical, financial and human resources to make the enforcement of current and future regulations widespread and predictable is difficult to forsee given the current economic and budgetary situation in Mexico."

Both sides suffer

Some of the toxic waste from American-owned maquiladoras is shuttled back into this country for disposal, adding to the burden on U.S. dumps. In other instances, plant operators simply sell drums of waste to small-time operators who dump the chemicals in the middle of the desert or in someone's back yard.

Moreover, many companies pour their hazardous wastes directly into Mexican sewage systems. There are few water treatment systems south of the border, and those that do exist are primitive in nature. So toxic wastes and raw sewage end up being dumped into the Rio Grande, contaminating the water supplies of communities on both sides of the border.

The director of the Water & Sewage Dept. in Laredo, Tex., paints this stark picture of what lies ahead:

"As maquiladoras increase in number and production, we will get toxic waste in the river which we can't treat out and which is more detrimental to the human system."

Meanwhile, maquiladoras are responsible for extensive contamination of the New River which flows through California's lettuce belt and into the Salton Sea, the state's largest lake. According to an EPA official, the New River "contains every disease known in the Western Hemisphere."

Air pollution is another problem plaguing communities on both sides of the border.

At a time when American communities are rethinking the whole question of incineration of waste materials Mexico permits burning at the Aqua Prieta landfill which contains unknown amounts and types of maquiladora waste. This aggrevates the air pollution problem not only in the Mexican community but in its sister city, Douglas, Ariz.

In Brownsville, Tex., there is rising concern over plans to build an incinerator in Matamoros to service an entire maquiladora industrial park. And on the drawing boards are plans for seven more hazardous waste incinerators in Mexico, four of them in the border area.

Beyond that, major toxic spills—either at the maquiladora plant sites themselves or in the transportation of these chemicals—could put at risk the safety and health of residents on both sides of the border.

There have already been several incidents that point to the potential for disaster:

- Quimica Fluor in Matamoros, which produces hydrofluoric acid, is 30 percent owned by Du Pont and a Du Pont subsidiary buys 85 percent of the plant's output. Fumes from the plant have damaged crops, and a toxic release from the plant in 1986 forced the evacuation of 3,000 people.
- Productos de Preservacion, also in Matamoros, has close financial ties with Idacon of Houston, Tex. On two occasions, it was responsible for hydrochloric spills. One occurred at a railroad transfer plant in Brownsville, Tex. The second took place when a storage holding tank collapsed at the Brownsville port, contaminating the soil and releasing a small toxic cloud into the air.

What's to be done about the myriad of problems rising out of the maquiladoras?

At a recent meeting with officials of the Confederation of Workers of Mexico (CTM), AFL-CIO Sec.-Treas. Thomas R. Donahue called for a multi-pronged approach that will include:

- Making American consumers aware of the exploitation of Mexican workers by these companies.
- Insuring that Mexican workers are able to organize into legitimate, free trade unions that can achieve reasonable wages and safe working conditions.
- A U.S. industrial buildup in the border area to relieve the high unemployment rates in Brownsville, El Paso and other cities.
- Fairness in Mexican-U.S. regulations of cross-border commerce.

The explosion of jobs in the maquiladoras has come at the expense of manufacturing employment in the United States, Donahue pointed out, adding:

Exploitation

"The real problem before us and all the other free trade unions of the world is that kind of chasing from country to country to exploit one or another group of workers.

"The answer to that problem is to raise living standards throughout the world, not to drive them down to the lowest common denominator.

"The problem facing the world economy is not an inability to produce goods and services or how to share production, but rather a lack of demand for the goods that could be produced. We know of at least one sure way to increase demand and that's by allowing workers to exercise their rights to form and join unions and to bargain for fair wages and decent conditions."

Maquiladoras drain jobs from U.S., pollute both sides of border

By Eugene C. Zack

A stampede of American assembly plants to Mexico has sapped this nation's industrial strength, idled hundreds of thousands of American workers and imposed sweatshop wages and working conditions on a Mexican workforce desperate for jobs at any price.

Greed and profit lure these runaways to the sprawling "maquiladora" complexes clustered along the Mexican side of the 1,700 mile border.

Aided and abetted by national and local governments of both countries, American firms relocating their operations to these "golden mills" reap special tariff breaks, evade U.S. minimum wage and hour laws and nullify existing trade union contracts.

What's more, recent studies show that these runaways have another powerful incentive—the evasion of U.S. environmental, health and safety standards. For workers in the maquiladoras, this means hazardous conditions on the jobs. And the toxic wastes generated by these plants pose a mounting threat to communities and residents, putting in peril the fragile ecology on both sides of the border.

The industrial flight reaches back more than two decades to 1965, when Congress outlawed the "bracero" program under which American agribusiness exploited Mexican migrants, shuttling them across the border to toil as stoop labor in their "factories in the field."

Responding to Mexico's plea for help in relieving the massive unemployment problem facing these field hands, the U.S. government agreed to join in the maquiladora program—described then as a bilateral effort that would bring prosperity to workers and communities on both sides of the U.S.-Mexican border.

It was sold as a "twin-plant" program with an equal number of production facilities and an equal number of jobs on each side of the border. But a 1987 study by the International Trade Commission made clear that the concept was an illusion, with few U.S. counterparts for the Mexican assembly operations.

If they were "twin plants," they hardly were identical twins. In those isolated instances where related American jobs exist in the border area, the number of workers employed is only a handful compared to those in the maquiladoras. What's more, the ITC said, these jobs are concentrated in so-called "foreign trade zones" and primarily involve "storage and distribution, rather than manufacturing."

As a result, American firms are reaping huge profits by exporting U.S. jobs and importing goods produced by low-wage workers.

When the program started two decades ago, it involved only 57 plants employing 4,200 Mexican workers. The number rose by the mid-1970s to 300 maquiladoras with 30,000 employees—most of them young women and girls, not the displaced braceros it was supposed to employ. Today, some 300,000 Mexican assembly workers labor for substandard wages and working conditions in the maquiladoras, taking jobs once held by some 125,000 American workers.

Recipes for disaster

Then two events in the early 1980s converged to drastically alter the scope of the maquiladora program:

- In Mexico, the economy virtually collapsed in the wake of the worldwide oil industry decline, touching off a monetary crisis of incredible proportions. Unemployment in some area soared as high as 50 percent, the value of the peso nosedived, and hungry workers had little choice but to take maquiladora jobs paying an average of 69 cents an hour.
- In the United States, the Reagan Administration brought a blind insistence on so-called "market forces" and "free trade," touching off the worst economic slump since the Great Depression in which unemployment reached double digits.

The Administration openly encouraged American firms to rush south of the Rio Grande. Industry responded enthusiastically. In the past decade, they invested $2 billion on assembly plants just across the border, shipping products back into this country at such an accelerated pace that they now account for nearly 20 percent of Mexico's $5 billion annual trade surplus with the United States.

The impact on American workers has been devastating.

- Zenith Electronic Corp. at its Evansville, Ind., plant, displaced 1,400 assembly line workers when it ran off to Juarez, Mexico. (See box.) In an ironic twist, Zenith recently asked the Commerce Dept. to determine whether color television sets manufactured in Mexico and seven Pacific Rim countries are being dumped on the U.S. market at cutthroat prices.

• In Buffalo, N.Y., Trico Products laid off 2,200 workers when it set up its maquiladora operations.

• Farah Manufacturing gutted its El Paso, Tex., operations, slashing its workforce from its peak level of 7,000 in 1980 to only 1,200 today. The rest of the jobs were shipped across the border to Juarez.

• According to El Paso Central Labor Union President Victor Munoz, the flight to the maquiladoras in a single year led to the layoff of 3,000 workers at Billy the Kid Industries Inc., 400 at Sun Apparel, 250 at Kessler Premium Castings, 140 at Ohio Medical and 126 at GTE. Overall, El Paso has lost 14,000 manufacturing jobs since 1980. The only job creation has occurred in services—banking, insurance, custom brokerage and related service industries.

• Steve Beckman of the UAW estimates that 70,000 workers are involved in manufacturing and assembly operations at maquiladora subsidiaries of General Motors, Ford and Chrysler.

• In the fall of 1988, Rheem Manufacturing Co., which makes water heaters for commercial and residential use, announced it would shut down its Chicago plant and lay off more than 500 factory employees because it was moving its production line to Nuevo Laredo, Mexico.

And so it goes. From American communities along the border to cities and towns in states like Wisconsin, Illinois, Indiana and Florida, workers' jobs and the economy of their communities are being sacrificed on the altar of corporate profit.

Appendix 7

February 6, 1991

The Honorable Marcy Kaptur
United States House of Representatives
Washington, DC 20515

Dear Representative Kaptur:

The undersigned companies, organizations and trade associations support the initiative by the Governments of the United States and Mexico to negotiate a comprehensive trade and investment agreement.

Given the potential benefits of a comprehensive agreement with Mexico, we believe that the negotiations should be given every opportunity to succeed. Maintenance of the fast track authority will give the negotiations that chance.

Our support of fast track authority does not guarantee we will support the final agreement. To the contrary, we will only support an agreement that is in the United States' commercial interest. To ensure this outcome, we intend to consult extensively with you, the U.S. negotiators, the government of Mexico and the Mexican private sector to promote a comprehensive and strong agreement.

We hope that you will support this constructive and balanced approach to the negotiations.

Sincerely,

A&M Cabinets of Yuma, AZ
Abbott Laboratories
Advance Group
AES Interconnect
Aetna Life & Casualty
Agriculture Trade Council
Air Products and Chemicals, Inc.
Aloalosa Forwarding
ALCOA

Alliance Capital Management Corporation
Alpha Lyracom/Pan American Satellite
AM-EX, International
America West Industries
American Airlines, Inc.
American Association of Exporters & Importers
American Brands, Inc.
American Business Conference
American Cyanamid Company
American Electric Power Company, Inc.
American Express Company
American Furniture Manufacturers Association
American Home Products Corporation
American International Group, Inc.
American League for Exports and Security Assistance
American Paper Institute
American Petroleum Institute
American Redemption Systems
American Soybean Association
Ameritech
Amoco Corporation
Anchor Advanced Products
Andrew & Williamson Sales Co., Inc.
Arical Paper Products
Arizona Products Co.
Arizona Public Service Inc.
Armstrong World Industries, Inc.
Artesian Ice, Inc.
The Arthur Andersen Worldwide Organization
ASEA Brown Boveri Inc.
Ashland Oil, Inc.
Assemble in Mexico
Associated Merchandising Corporation
* AT&T
Atlantic Richfield Company
Automotive Parts Exchange of Yuma, AZ
Automotive Products Company
Avent, Inc.
B & H Refrigeration and Solar
Badger Meter Company
Baker & McKenzie of San Diego, CA
Bali Company
Bank of America
Banker's Association for Foreign Trade
Bankers Trust Company
C.R. Bard Inc.
Baxter Healthcare Corporation
BEA Associates
Bechtel Group, Inc.
Becton Dickinson and Company

Bell Atlantic Corporation
BellSouth Corporation
Bethlehem Steel Corporation
Bingham Equipment Co.
The Black & Decker Corporation
Blackhawk Automotive, Inc. of Nogales, AZ
The Boeing Company
Boise Cascade Corporation
Border Service Sales
Border Trade Alliance
Borg-Warner Corporation
Bose Corporation of Yuma, AZ
Bowater Inc.
BP America
Bristol-Myers Squibb Company
Britain's Steel and Supplies
Bruce Church, Inc.
Bryan, Gonzalez Vargas y Gonzalez Baz of San Diego, Ca
Bud of California
The Business Roundtable
Butler Paper Company
Cal-State Lumber Sales, Inc.
Campbell Soup Company
Capital Cities/ABC Inc.
Cargill, Inc.
Carlson Systems of Nogales, AZ
Carribbean/Central American Action
Carroll Brill - Cinema
Carter Hawley Hale Stores, Inc.
Casework Systems & Millwork
Caterpillar Inc.
Central 57 Importers & Exporters
Central Power & Light
Chamber of Commerce of the United States
Chamberlain Distributing, Inc.
Chamberlain Group, Inc.
Champion International Corporation
Charcoal Grill of Eagle Pass, TX
The Chase Manhattan Bank
Chemical Banking Corporation
Chemical Manufacturers Association
Chrysler Corporation
CIGNA Corporation
Circle K Food Stores of Yuma, AZ
Citicorp/Citibank
CNC Systems Inc.
Coalition for Open Markets and Expanded Trade
Coalition of Service Industries
The Coca-Cola Company
Coexport International, Inc.

Coldwell Banker of San Diego, CA
Coleman Products of Nogales, AZ
Colgate-Palmolive Company
Collectron of Arizona, Inc.
The Columbia Gas System, Inc.
Computer and Business Equipment Manufacturers Association
Computer & Communications Industry Association
Con-Way Western Express
Consumers For World Trade
Continental Grain Company
Control Data Corporation
Cooper Industries, Inc.
Copper State Analytical Lab, Inc.
Cosmetic, Toiletry & Fragrance Association
Council of the Americas
Culiacan Produce Company, Inc.
D.D.C. Pertec
Da-Lite Screen Company, Inc.
* Dana Corporation (not in maquiladora but in Mexico)
Dayton Hudson Corporation
Deere & Company
Del Rio, TX Chamber of Commerce
Del Rio, TX Hotel
Deloitte and Touche of San Diego, CA
Delta Product Co. of Arizona
The Desert Company
A.B. Dick Products Co. of Tuscon
Digital Equipment Corporation
Blake Dobbins
The Dow Chemical Company
DPL Inc.
Dreamland Bedding
Dresser Industries, Inc.
Dresser-Rand Company
The Dun & Bradstreet Corporation
DuPont
Duthitt Steel and Supply, Inc.
Eagle Grocery & Market
Eagle Lumber Company
Eagle Pass, TX Chamber of Commerce
Eagle Pass Natural Gas Corporation
Eagle Pass & P.N. Bus
Eastman Kodak Company
Eaton Corporation
Electronic Data Systems
Electronic Interconnect System, Inc.
Eli Lilly and Company
Emergency Committee on American Trade
Emerson Electric Company
Emery Worldwide of Tuscon, AZ

February 6, 1991
Page Five

ESC, Inc.
European Interamerican Finance Corporation
Exxon Corporation
First Interstate Bank of Arizona
Arturo F. Flores Trading Co.
Fluor Corporation
FMC Corporation
Ford Motor Company
Foster Grant Corporation
Frank's Distributing Inc. of Nogales, AZ
Fritz Bottling Company of Yuma, AZ
Frontier State Bank of Eagle Pass, TX
Fruit of the Loom, Inc.
G.A.C. Produce Company
Ganyo North America
Mike Garcia Inc.
Gaylord Container Corporation
Gencorp
General Dynamics of Harlingen, TX
General Electric
General Instrument Corporation, Jerrold Division
General Mills, Inc.
General Motors Corporation
Georgia-Pacific Corporation
The Gillette Company
Charles E. Gillman Corporation
Gilpin's Machine Works
Glen Curtis, Inc.
Gonzales Customs Services
T.C. Gonzales Inc.
The Goodyear Tire and Rubber Company
Gowan Company
Gray, Cary, Ames & Frye of San Diego, CA
Greyhound-Dial Corporation
Grocery Manufacturers of America, Inc.
Growers Distributing International, Inc.
Grubb & Ellis of San Diego, CA
GTE Corporation
H.M. Distributors
Halliburton Company
Handling Systems Inc.
M. A. Hanna Company
Hansberger Electric
Harlingern State Bank
Harris Corporation
Al Harrison Company Distributors
Daniel B. Hastings, Inc.
Hazchem Environmental Services, Inc.
Hercules Incorporated
Hershey Foods Corporation

Hewlett-Packard
Highway Ceramics, Inc.
Hillaven Health Care
Honeywell Inc.
Household International
Houston International
Hytronics West Corporation
IBM Corporation
Ice Produce Distributors, Inc.
Illinois Tool Works Inc.
IMEC
Ingersoll-Rand Company
Inland Steel Industries
International Assemblers, Inc.
International Mass Retail Association
International Paper Company
International Rectifier
International Trade Council
ITT Corporation
J & A Produce, Inc.
Jack Eckerd Corporation
James Rivers Corporation
Javid Industries Jeffer's Electronics
William F. Jeffrey, Inc. Customs Brokers
Jennings, Engstrand and Henrickson of San Diego, CA
Jeyco Produce Company, Inc.
Johnson & Johnson
Valentin Juve, Inc.
K-Mart Corporaiton
Kaliroy Produce, Inc.
Kaplan Russin & Vecchi
Kellogg Company
Kirk Enterprises
Konica Imaging U.S.A., Inc.
The Kroger Company
La Villa de Paris
L.B.Q. Fruit & Produce Company, Inc.
Lipoco
Lisa, Inc. of Nogales, AZ
Litton Industries, Inc.
Liz Claiborne Inc.
Luce, Forward, Hamilton, Scripps of San Diego, CA
M & M of Nogales, AZ
Made in Mexico
Magnetic Metals Corporation
Mandel/Amerifresh
Manufacturers Hanover Corporation
Marriott Corporation
Marsh & McLennan Companies, Inc.
Benito Martinez, Inc.

Rogelio D. Martinez Inc.
Matel, Inc.
Maverick Arms, Inc.
Maverick County Development Corporation
Maverick County Private Industry Council
McElhaney Cattle Co.
McDonnell Douglas Corporation of Yuma, AZ
McGraw-Hill, Inc.
McKesson Corporation
Mead Corporation
Melton Associates
Merck & Co., Inc.
Merrill-Lynch & Company, Inc.
Meyer Tomatoes
Mid-America Committee
Milstein Properties Corporation
Minnesota, Mining & Manufacturing
Mobil Corporation
Mohawk Wholesale & Equipment
Molex Corporation
Monsanto Company
J.P. Morgan and Company
Morgan Stanley & Co., Inc.
Motor Vehicle Manufacturers Association
Motorola, Inc.
National Agricultural Chemicals Association
National Apparel and Textile Association
National Association of Manufacturers
National Association of Photographic Manufacturers, Inc.
National Association of Stevedores
National Food Processors Association
National Foreign Trade Council
National Forest Products Association
National Grange
National Intergroup, Inc.
National Oil Seed Processors Association
National Retail Federation
Naumann/Hobbs Material Handling, Inc.
Navios Corporation
NCNB Corporation
NCR Corporation
Nogales Chamber of Commerce
Nogales-Santa Cruz Economic Development Foundation, Inc.
Norfolk Southern Corporation
North American Philips Corporation
NYNEX Corporation
Odyssey of America/Yuma
Offshore Factories, Inc.
Olin Corporation
Q.C. Onics

Otay Mesa Chamber of Commerce
Pacific Enterprises
Pacific Telesis Group
PaineWebber Group Inc.
Palenque Produce Distributors, Inc.
Pasquinelli Produce Co.
Paxton, Shreve and Hays
Penn Neon Sign Co., Inc.
J.C. Penney Company, Inc.
Pennzoil Company
Pepsico, Inc.
The Perkin-Elmer Corporation
Pfizer Inc.
Philip Morris Companies, Inc.
Phillips Petroleum Company
R.A. Pina & Associates
Polaroid Corporation
Porter International
Power One of Yuma, AZ
Premium Produce Distributors, Inc.
Prestolite Wire Corporation
PRE-VENT Tronics Corporation
Primerica Corporation
The Procter & Gamble Company
The Promus Companies
PSI Energy, Inc.
Quality Tile Distributors
Quantum Manufacturing
The Reader's Digest Association, Inc.
Retail Industry Trade Action Coalition
Reynolds Metals Company
The Riggs National Bank of Washington, D.C.
Rio Grande Valley Chamber of Commerce
Roadway Services Inc.
Rockwell International Corporation
Rohm and Haas Company
Romic Chemical Corporation
Kim Rothschild
Russell Coil Co., Inc.
Ryder System, Inc.
Samsonite Corporation of Nogales, AZ
Sandia Distributors
San Diego Customs Brokers Association
San Diego Economic Development Corporation
San Luis Distributors, Inc.
San Rafael Distributing, Inc.
Sara Lee Corporation
Scott Paper Company
Sea-Land Corporation
Sears, Roebuck and Company

Security Pacific Bank Corporation of San Diego, CA
Semiconductor Industry Association
Shape Magnetronics Co.
Shell Oil Company
A. O. Smith Co.
Society of Plastics Institute
The Southern Company
Southern California Edison Company
Southern Pacific Transportation Corporation
Southwestern Bell Corporation
Southwestern Motor Transportation
Southwestern Steel Co., Inc.
Southwestern Systems Inc.
Sparkle Ice
Spectra Star Kits, Inc.
Stillman & Wyman, Inc.
Sucasa Produce, Inc.
Sun Microsystems, Inc.
Sun River Distributing of Yuma, AZ
Super Valu Stores, Inc.
Syntex Corporation
Synthetic Organic Chemical Manufacturers Association
T & T Ind. Mario De La Cabada
Techint Incoroporated
Teddy Bertuca Company
Tenneco Inc.
Tepeyac Produce Company
Texas Apparel
Texas Instruments Incorporated
Time-Warner, Inc.
The Travelers Corporation
Trammel Crow
Triple E Produce Corporation
TRW Inc.
TSE Brakes
Turner Laboratories
Tuscon Scale & Food Equipment
Tusconix, Inc.
Union Camp Corporation
Union Carbide Corporation
Union Pacific Corporation
UNISYS Corporation
The Unisource Corporation
United Airlines
United Iron Works & Truck of Yuma, AZ
United Manufacturing, Inc.
United Parcel Service
United States Council for International Business
United Technologies Corporation
Universal Leaf Tobacco Company

The Upjohn Company
U.S. Council of the Mexico-U.S. Business Committee
US West, Inc.
USX Corporation
Valencia International Inc.
Valley Mattress & Upholstery
Valve Manufacturers Association of America
Verbatim
Vertel International
VIRCO
Walbro Corporation
The Wayne Vohland Corporation of Colorado
Warnaco Inc.
Warner-Lambert
Waste Management, Inc.
Wells Fargo Bank
Wellton Mohawk Irrigation & Drainage District
West Cap, Company
West Coast Industries, Inc.
Western Maquiladora Trade Association
Westinghouse
Weyerhaeuser Company
Whirlpool Corporation
Whitman Corporation
Wickstrom Chevrolet Co.
The Williams Companies, Inc.
Wilson Jones
J.K. Wilson Produce Company
Charles A. Winn, Inc.
World Trade Association
Yuma Daily Sun
Yuma Regional Medical Center
Yuma Truss Co.
Yuma Work Center, Inc.
Xerox Corporation of Nogales, AZ
*Zenith Electronics Corporation

APPENDIX 8

Auto-Related Maquiladora Plants and Employment

General Motors

Packard Electric			
Alambrados y Circuitos Electricas	wire harnesses	Chihuahua	3,424
		Chihuahua Cuauhtemoc	800
		Delicias	79?
		Nuevo Laredo	800
		Nuevo Casas Grandes	800
Rio Bravo Electricos		Juarez:	
	wire harnesses	Plant 1	675
		Plant 2	
		Plant 3	640
		Plant 3A	1,180
		Plant 4	
		Plant 4B	763
	engine controls, solenoids, turn signals	Plant 5	622
Cableados de Juarez	wire harnesses	Juarez	1,809
Conductores y Componentes Electricos	electrical components	Juarez	
	wire harnesses	Juarez	1,227
	wire harnesses	Villa Ahumada	
Ensamble de Cables y Componentes	wire harnesses	Guadalupe	
Delco Products			
Delmex de Juarez Electrical	Antennas, ISC motors, electronic components	Juarez	834
Delredo	ceramic magnets	Matamoros	550
Delco Electronics			
Deltronics de Matamoros	stereos, electronic parts	Matamoros	2,479
Delnosa	electronic air, engine controls	Reynosa #1	600
		Reynosa #2	1,000
Delco Remy			
D.R. de Chihuahua	solenoids	Chihuahua	657
Sistema Electricos y	commutadores, switches, solenoids	Juarez	1,234
Inland			
Vestiduras Fronterizas	interior trim	Juarez	950
Componentes Mecanicos	dashboards, steering wheels, brakehose assembly	Matamoros	2,163

Rochester Products	control components	Juarez	
Fisher Guide Rimir	plastic bumpers, dashboards	Matamoros	1,127
Total GM 29 plants			25,131
KLH Industries (supplies wiring harnesses to GM/Packard)		Matamoros	
Ford			
Altec Electronica	auto electronics, radios, cassette radios	Chihuahua	1,000
Favesa	auto trim, seat covers	Juarez	1,050
		Juarez	805
		Juarez	1,490
		Juarez	
Autovidrio	auto glass	Juarez	
Coclisa	climate control	Juarez	326
Cardenas	steering columns	Queretaro	
Lamosa	catalytic converter assembly, stabilizer bars, coils, wheels	Nuevo Laredo	712
Total Ford 9 plants			5,483
Chrysler			
Auto Electronica		Juarez	560
Productos Electricos Diversificados	wire harnesses	Juarez #1	5,600
		Juarez #2	
		Juarez #3	
Ensamble de Interiores	trim, seat covers	Juarez	25
American Motors Circuitos Mexicanos	wiring	Nogales	450
Total Chrysler			6,635
Honda			
Honda Mexicana		El Salto	
Industrias Tri-Con	seat covers	Nuevo Laredo	254

United Technologies			
Essex Wire			
Essex International		Chihuahua #157	920
		Chihuahua #162	500
		Chihuahua #169	
		Chihuahua #167	900
	wire harnesses	Chihuahua #194	
		Juarez #168	
		Juarez #73	65
		Juarez #28	650
		Juarez #137	750
		Juarez #163	500
		Juarez #158	780
	die details	Juarez	50
Total United Technologies			5,115
Parker-Hannifin			
Parker Seal de Baja California	elastomer aviation seals	Tijuana	130
Brownsville Rubber Co.	rubber seals o-rings	Matamoros	
Ideal/Auto Industrial de Partes	flashers, clamps	Matamoros	244
Plews	auto service tools	Matamoros	13
Midland-Ross			
Cambion Mexicana	electronics	Nogales	
Electro-Mech	Transformers, relays	Nogales	400
A.O. Smith			
Fabricantes de Motores Electricos de Mexico	electric motors	Juarez	403
		Juarez	1,152
Fabricantes de Componentes de Motores	electrical motor parts	Juarez	140
		Juarez	73
Productos Electricos Aplicadas	electric motors	Acuna	250
ITT			
Fabricacion Industrial Automotores	cables wire harnesses	Saltillo	
Industrias Thompson de Mexico	wire harnesses	Matamoros	

Allied/Bendix			
Sistemas Bendix de Seguridad	seat belts	Agua Prieta	500
Sistemas Mecanicos y Electronicos	PC board assembly, auto & aviation parts	Mexicali	368
Garrett Productos Automotrices	radiators	Mexicali	
LOF			
L-N SafetyGlass	windshields	Mexicali	185
Marmon Group/American Safety Equipment			
American Safety de Mexico	seat belts	Juarez	802
Dayco/Allen Industries			
Industries Allen de Chihuahua	seat trim	Chihuahua	700
American Yazaki			
Autopartes y Arneses de Mexico	wire harnesses	Chihuahua	1,116
	wire harnesses	Ascension Nuevo Casas Grandes	
Buenaventura AutoPartes		San Buenaventura	
Axa Yazaki	wire harnesses	San Nicolas de los Garza	
Dana Corp.			
Dana de Baja California	electronics	Tijuana	
Eaton Corp.			
Condura	wire harnesses switches	Matamoros	800
Echlin Inc.			
Lipe Rollway Mexicana	electric motors, parts, clutch disc plates	Mexicali	45
North American Philips			
Components Electricos de Lampares	sealed beam head lamps	Juarez	415
Electro Wire Products			
Maquiladoras Fronterizos		Juarez	550
	wire harnesses	Juarez	419
Arneses de Cd. Juarez		Juarez	
PEP Industries/Alcoa			
Arneses y Accesoros de Mexico	wire harnesses	Acuna	1,334
Rassini Rheem			
Rassini Rheem	Leaf, coil springs	Piedras Negras	

Elementos de Frena para Automacion	disc brake pads	Guadalajara	
Rio Grande Servaas	wheel rims	Piedras Negras	188
Lyall Electric Electro de Mexico	wire harnesses	Juarez	500
Tracor/Littlefuse Littlefuse	electronics, auto parts, alarms	Piedras Negras	700
Revestimientos Especiale Modeados (Spain) Elem de Freno	brake discs	Guadalajara	
Lebo Glass Co. Cristales Automotrices	auto & architectural glass	Guadalajara	150
Gateway Industries Equipo Automotriz Americano	seat belts	Agua Prieta	740
Custom Trim, Ltd. (Canada) Auto Trim Matamoros	steering wheel covers	Matamoros	
Trico Products Trico	windshield cleaning systems & components	Matamoros	
Handy & Harmon Maquila de Autopartes	radiators, vacuum harnesses	Nuevo Laredo	120
Carpetas Automotries	vinyl auto rugs, carpets	Nuevo Laredo	
Allen Coach Works Eagle Allen Executive Auto	custom conversion	Nuevo Laredo	150
Border Manufacturing Industrias Nuevo Laredo	auto air compressor reconditioning	Nuevo Laredo	50
Merit Radiators Grupo Radiadores Daniel	locomotive radiator assembly	Nuevo Laredo	110

Rockwell International			
Soc. Coop. de Producion Limitada La Antigua California	wheel rim	Tijuana	
Sheller-Globe			
Leece Neville de Mexico	fractional hp motors	Matamoros	
Sheller-Globe de Mexico	steering wheels (leather)	Santa Catarina	38
Stewart-Warner Corp.	electronics	Juarez	
TRW			
Hamill de Mexico	seat belts	Reynosa	920
TRW Automotive Products Remanufacturing		Reynosa	
Walbro Corp.			
Walbro de Mexico	carburetors	Nogales	300
General Automotive Specialty Co.			
Candados Universales de Mexico	locks	Matamoros	60
Wren Industries			
Industrias Gobar	metal parts for dashboards	Matamoros	
Industrias Wren	dashboard components	Matamoros	18
Mr. Gasket			
Fabricaciones Metalicos Mexicans	exhaust headers, mufflers	Mexicali	281
Murphy Industries			
Murphy Industrias	wire harnesses	Saltillo	
Electronic Interconnect Systems			
Sistemas Conexiones Integradas	wire harnesses	Imuris	
MCD Corp.			
Alfabet de Mexico	wire harnesses	Chihuahua	
Western of Texas			
Conductores Tecnologicos	wire harnesses	Juarez	200
American Industries International			
Industrias de America	wire harnesses	Juarez	

Blazer International Corp. Ensambles Automotrices	wire harnesses, lighting	Naco	50
	halogen lighting	Cananea	45
Cooper Tire & Rubber Rio Grande Servaas	wheel rims	Piedras Negras	188
Imperial Wheel Ltd. Pulidora Internacional de Rines	wheel rim assembly	Tijuana	66
Baja Oriente, S.A. de C.V.	aluminum wheel rims	Ensenada	76
Imperial Enterprises Corporacion Industrial Commercial de Norte	wheel rims, bumpers	Mexicali	
Manufacturera y Ensembladora de Tecate	auto armatures	Tecate	7
Continental Enterprises Industrias Tanama	bumpers, protective devices	Tijuana	22
EVA Manufacturing Activo Monterrey	starters	Monterrey	
Blackhawk Automotive Apno	battery chargers, jumper cables, washers	Nogales	97
Wickes Companies Dura de Mexico	window regulators, suspension arms	Matamoros	
CMI International Industrias Fronterizas CMI	castings, components	Nuevo Laredo	117
B.G. Manufacturing Automotriz Electrica	auto products	Nogales	
Eric Van Valkeberg Covercraft Industries Autocubiertas de Mexico	front car covers	Mexicali	
Federal Mogul Switches Inc. Subensembles Internacionales	mechanical & electronic parts	Juarez	200

Nichimen			
Tanashin de Mexico	tape decks for auto radios	Chihuahua	300
Moog Automotive			
Everco Industries	refrigerator motors	Juarez	
Briggs & Stratton			
Tecnologia Briggs y Stratton	auto locks & key assemblies	Juarez	
Batesville Tool & Die of Texas			
Troquelados de Batesville	auto stampings	Juarez	75
Douglas & Lomason			
Douglas y Lomason de Mexico	auto tarim, seat covers, soft trim	Acuna	141
Irvin Industries			
Industrias Irvin	seat belts	Acuna	427
Border Manufacturing			
Industrias Nuevo Laredo	air conditioner compresssors, remanufactured	Nuevo Laredo	95
Wells Manufacturing Corp.	ignition components	Reynosa	
Plumley Companies			
Fabex			
Fabricacion de Autopartes y Bienes de Exportacion	auto parts	Torreon	
Wilmore Integrated Services			
Resin	auto cables	Juarez	
Maquimetal	auto jack parts	Guadalajara	38
Cronan Manufacturing Co.			
Cronan de Mexico	auto starter mechanisms	Guadalupe	
Carplastics			
Recubrimientos Internacional para Autopartes	parts, felt panels	Guadalupe	
Kaydon Corp.	forged rings	Santa Catarina	
ARMTEK			
Blackstone de Mexico	heaters, oil coolers, metal radiators & parts	San Luis Potosi	279
Total auto-related employment			56,614

AEROSPACE PLANTS

Chrysler			
Gulfstream Aerospace Interiores Aeros	aircraft components	Mexicali	
McDonnell Douglas Corp.			
Placas Electronicos	electronic components for PC boards	Mexicali	75
General Motors			
Hughes Aircraft			
Ensembladores Electronicos de Mexico	electronic assemblies, wire harnesses, transformers, power supplies	Mexicali	700
Interaz	connectors	Tijuana	
	integrated circuits, wire harnesses, connectors	Tijuana	370

TRUCKS AND HEAVY EQUIPMENT

Paccar			
Kenworth Mexicana	truck assembly	Mexicali	
Caterpillar			
Solar Turbines Turbo Tecnologia de Reparacion	turbine repair	Tijuana	66
Maxon Industries			
Maxon Industrias	trash truck components	Tijuana	180
Plasticos Carrocerias y Remolques del Pacifico	aluminum truck body assembly	Tijuana	34
Eagle-Picher Industries			
Bujes de Bronce Equipos de Acuna	bearings steel components for earth-moving equipment	Chihuahua Acuna	30
True Fit, Inc.			
Asientos Para Transportacion	boat & farm machinery seats	Nuevo Laredo	

Westland Trailer Co.	trailer assembly & tractor truck reconstruction	Guaymas
Mitsubishi Corp.		
Fabricacion Metalica	processing steel for earth-moving equipment	Matamoros

OTHER

Kohler Co.		
Kohler Sanimex	porcelain bathroom fixtures	Garza Garcia

TOTAL KNOWN EMPLOYMENT IN UAW-RELATED INDUSTRIES 60,860

Number of plants with employment figures	103
Number of plants with no employment figures	61
Total number of plants	164

SB:bbj
opeiu494
sb maq plants
DD 1988 #3

The Washington Post, July 17, 1989

New Image of Mexico's Ruling Party Tarnished

PRI Accused of Fraud and Setting an Electoral Double Standard in Recent State Votes

By William Branigin
Washington Post Foreign Service

MEXICO CITY—After winning praise for conceding its first major election defeat in its 60-year history, Mexico's long-ruling political machine has seen its new reformist image tarnished by charges of rampant fraud in a separate election in the central state of Michoacan.

The contrast in the approach to the two elections by the Institutional Revolutionary Party, known by its initials in Spanish as the PRI, has led to charges of an electoral double standard in which the government favors conservative opponents over leftists. However, some analysts attributed the PRI's changeable election behavior more to local party bosses and their sense of what they can get away with.

In the northwestern border state of Baja California Norte, the gubernatorial candidate of the conservative National Action Party (PAN), Ernesto Ruffo Appel, was officially declared the winner by the state electoral commission on Thursday, 11 days after the July 2 election.

PRI national President Luis Donaldo Colosio already had acknowledged Ruffo's victory in a move apparently aimed at heading off efforts by state PRI officials to steal the election in favor of the party's candidate.

While not out of character for the PRI, such fraud would have dealt President Carlos Salinas de Gortari a severe embarrassment on the eve of his first foreign tour, Mexican political analysts said.

Salinas, who took office in December for a six-year term, attended ceremonies in Paris during the past week marking the bicentennial of the French Revolution and conferred with a number of foreign leaders on topics such as debt-reduction and drug trafficking.

The acknowledgement that Ruffo defeated PRI candidate Margarita Ortega, a 38-year-old sociologist and personal choice of Salinas, has been widely lauded as a sign of political reform.

However, PAN officials charged that the reason it took so long to officially proclaim the gubernatorial winner—by law, the announcement should have been made July 9—was so the state PRI could rig the results of at least two crucial district races for a new state legislature and thereby avoid being shut out of a new state electoral commission.

As it stands now, the PAN has won eight of the 15 legislative seats at stake and two of four mayoralties, including that of the booming border city of Tijuana, just south of San Diego. Under state law, the legislative results give the PAN three of five seats on the new electoral commission, with one each going to the PRI and a leftist party.

To some extent, the PRI's concession of the governor's race in Baja California amounted to "a little bit of window dressing by the regime," said PAN spokesman Norberto Corella. "Fraud continues," he added. "There is a step forward, but many steps that continue as usual."

A case in point, he said, was the election also held July 2 for a new state legislature in the poor central farming state of Michoacan. Although the PRI claims to have won 12 of 18 seats at stake there, the PAN has joined leftist opposition parties in supporting the claim of the newly formed Democratic Revolutionary Party to have won a majority of the races.

The PRI also claimed victory in three other state elections held July 2 in Chihuahua, Campeche and Zacatecas, and said it swept mayoral and legislative polls last Wednesday in Durango.

The Democratic Revolutionary Party, founded by former leftist presidential candidate Cuauhtemoc Cardenas, filed criminal charges Thursday against state government and PRI officials in Michoacan for allegedly falsifying documents and abusing their powers in carrying out massive electoral fraud.

Cardenas supporters also have blocked roads, occupied government buildings and staged demonstrations to back their own victory claims.

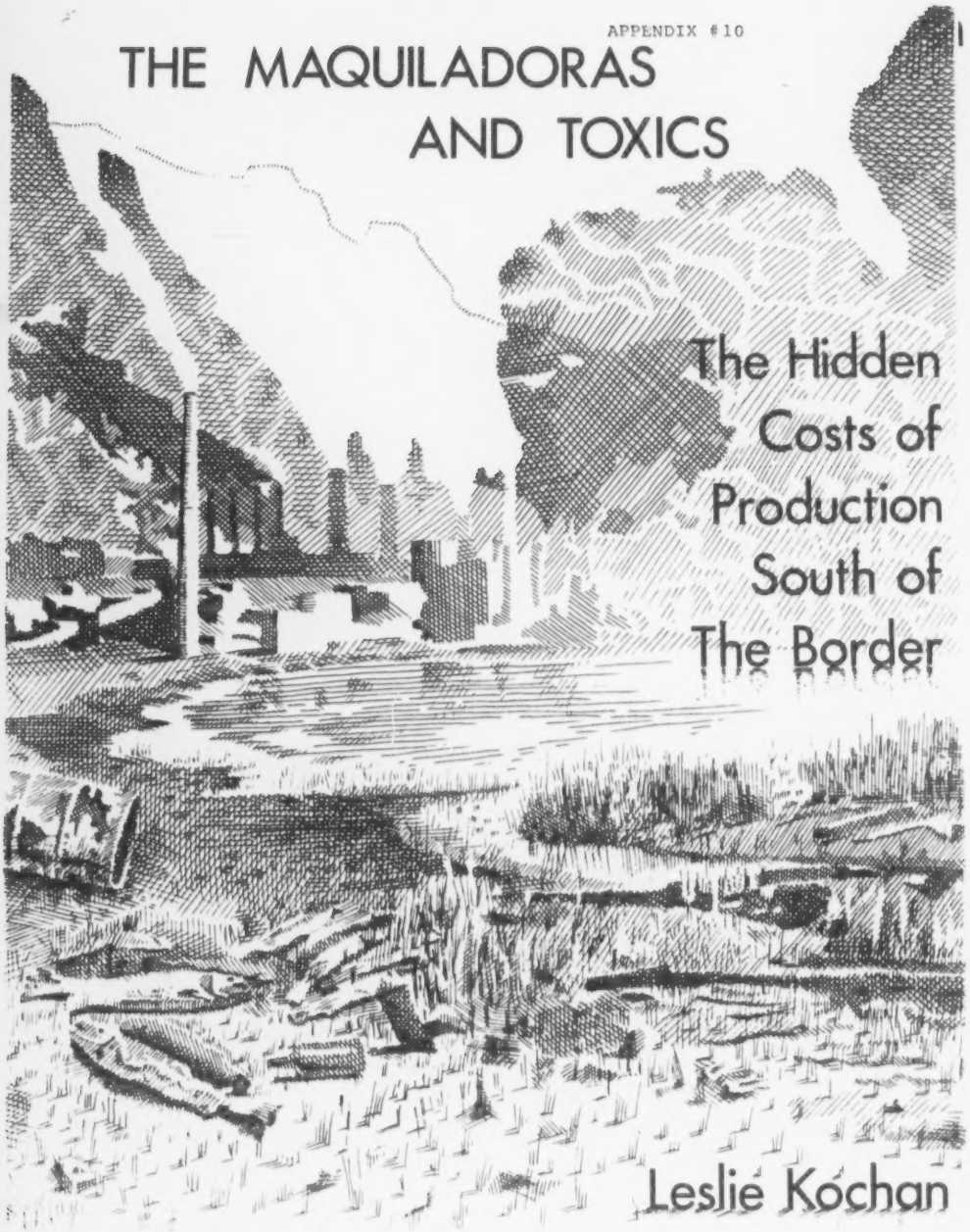
"Mexican elections continue to be a shame," wrote historian Luis Javier Garrido in a commentary Friday on the elections.

Some commentators have argued that although only a state legislature was at stake in Michoacan, the PRI considered an opposition win riskier there than in Baja California because Cardenas supporters are more radical than PAN followers.

Local PRI bosses also appeared determined to prevent Cardenas, a PRI renegade and former Michoacan governor, from turning the state into a power base for a revitalized left. Since last year's presidential election, in which Cardenas put up the strongest opposition challenge to the PRI in 60 years, his leftist coalition has largely fallen apart amid ideological and personal infighting.

APPENDIX #10

THE MAQUILADORAS AND TOXICS



The Hidden Costs of Production South of The Border

Leslie Kochan

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Maquiladoras: The Hidden Cost of Production South of the Border

Introduction

For more than two decades, the flight of American-owned assembly operations to the "maquiladoras" just across the Rio Grande has wreaked havoc among workers in both the United States and Mexico.

For American workers, the maquiladoras mean the loss of hundreds of thousands of jobs as giant corporations—aided and abetted by the U.S. government—have shut up shop in this country and moved to Mexico in search of an easily exploitable workforce.

For Mexican workers, most of whom are women and young girls, the maquiladoras mean meager wages of as little as $2.90 a day, soaring consumer prices, working conditions that resemble the sweatshops of the late 19th and early 20th century, and a woeful lack of an adequate infrastructure (housing, sewage systems, water supplies, roads and bridges.)

Now evidence is mounting that the maquiladoras pose a potentially more serious menace to those living on both sides of the border—the ecological hazard caused by these plants as they release toxic wastes into the air, the water and the land.

Here are the dimensions of the problem:

- Drinking water supplies and irrigation waters are being polluted and fish and wildlife face extinction.
- The fragile ecosystem is endangered by indiscriminate dumping of waste in land dumps.
- The region lives under the threat of toxic poisoning caused by transportation or industrial accidents.
- Adequate waste treatment facilities are lacking on both sides of the border.
- Mexican workers are frequently denied basic health and safety protections against occupational illness or disease, and they risk the loss of their jobs if they protest these dangerous conditions.
- The cost of cleaning up industrial and bacterial contaminants is skyrocketing, as is the price tag for building roads and bridges to supplement those damaged and overloaded by hazardous materials haulers.

This report analyzes the silent compact between many corporations and the Mexican government, which amounts to a waiver of responsibility for the safe use of toxics in the workplace, and for their careful transportation and disposal. It points up the grave health, ecological, social and economic problems that have arisen because of the unchecked growth of the maquiladoras.

The report was compiled from interviews and research done by Leslie Kochan of the Oregon Dept. of Environmental Quality. The subjects of her interviews are listed as sources on the inside back cover and referred to in the text. Kochan, who has an MS in Environmental Policy from Tufts, has worked on hazardous waste issues for the Texas Center for Policy Study.

I. U.S. and Mexican Environmental Protection and Health and Safety Laws

The Flight from United States Regulation

One of the big attractions that the maquiladoras hold for American industry is the Mexican government's hands-off attitude toward environmental protection and worker health and safety laws.

The Texas Economic Commission has used this argument to promote the flight of U.S. firms to the maquiladoras. It points out that in Mexico: "Governmental control is minimal; for example, there are no stiff prohibitions such as in the United States with respect to air quality, etc." While it is obviously difficult to document that American firms have specifically moved to Mexico to evade more stringent regulations in the United States, the following experience by Kast Metal Workers bears witness to the allure of an unregulated environment.

Enforcement, not legislation, is the problem.

For years, Kast Metals, Inc., of Keokuk, Iowa, fought against Occupational Safety and Health Administration (OSHA) inspections. In 1982, the Iowa State Bureau of Labor won a lawsuit that got the state OSHA agency into the plant. In 1987, Kast Metals was fined $2,000 for "serious violations" centering on improper containment of certain toxic gases. It has now closed its Keokuk plant and moved to Carmago, Mexico. (Longoria, 1987).

Although Mexico's environmental and worker health laws have been extremely weak, the government is now drafting new and tougher regulations. The concern, however, remains enforcement.

The two countries have differences in policy and enforcement.

The Political Realities

U.S. environmental and worker health and safety laws set admirable goals. But the Reagan Administration tried to destroy these safeguards by:

- Slashing funds for OSHA and the Environmental Protection Agency.
- Proposing to suspend regulations requiring industries to treat sewage before dumping it into municipal systems.
- Supporting efforts to end federal control of toxic wastes.
- Placing anti-environmentalists in key positions.

The Reagan Administration crippled many important programs, but could not destroy them. Unions, environmentalists and citizen groups convinced Congress and the courts to lessen the damage.

Now, Mexico is putting together new regulations on pollution and worker exposures. But it lacks the economic resources to do an adequate job. And it doesn't have strong environmental or community groups to put pressure on the government.

According to a 1986 United States Department of Commerce report issued by the U.S. Embassy in Mexico, Mexican environmental groups have been able "to point to a few successes in influencing" government policy, but are hampered by an inability to "obtain credible scientific data and by the lack of local government or legislative institutions with which the groups can influence policy."

Ron Nye, a longtime environmental and conservation activist in Mexico, sums it up this way: "The problem isn't going to be legislation or regulation, but rather enforcement—and enforcement will require citizen and worker representation."

Mexico's Environmental Laws

The Federal Environmental Protection Law of 1982 marked the beginning of Mexico's efforts to do something about the problem. But four years later, the government still hadn't set standards for discharges into water and air, or for disposal and treatment of hazardous materials.

By 1986, standards were being prepared for solid waste disposal and for a limited number of air emissions. But only a few industries—like the national oil company and some copper smelters—had monitoring systems to detect violations of environmental standards.

In 1987, the Mexican Hazardous Waste Decree developed the first brief list of "hazardous materials," but didn't regulate waste storage sites.

The General Law on Ecological Equilibrium and Environmental Protection was adopted in 1988. A series of "ecological technical standards" were subsequently issued. They covered air pollution from gasoline vehicles, cement industry ovens and sulphuric acid production, and water pollution from asbestos, copper, synthetic rubber, glass and flour production.

But the 1986 Embassy report stressed that "the development of technical, financial and human resources to make the enforcement of current and future regulations widespread and predictable is difficult to forsee given the current economic and budgetary situation in Mexico."

Control of Toxic Chemicals

In the United States, the 1976 Toxic Substances Control Act regulates the evaluation and registration of raw industrial chemicals. It provides that chemical manufacture, import and disposal may be restricted and banned. New chemicals entering the U.S. market are subject to notification requirements. A more rigorous registration on the testing process is required under the Federal Insecticide, Fungicide and Rodenticide Act.

Exports of hazardous substances must be reported to EPA, which in turn is supposed to notify Mexico if these materials are going into that country. But the process is slow, and according to Border Ecology Project researchers, dangerous substances could be far into Mexico and already into production and use before local authorities on either side of the border are aware of the shipment. (Kamp and Gregory, 1988).

Transporting and Disposing of Hazardous Materials

The 1976 Resource Conservation and Recovery Act (RCRA) se. up a system to identify waste and track its generation, transport and disposal in the U.S. It also includes standards for disposal sites and state programs to regulate hazardous waste.

The law mandates registration for hazardous waste transporters and disposal sites. It requires a system of manifests to track waste from its source of production to its final disposal or destruction, certification that the waste is properly labeled and packaged, and certification that treatment, storage and disposal are adequate to minimize present and future health and environmental threats.

Mexico has a similar manifest system, but few government employees are available to provide information on laws and to oversee inspections and enforcement. It is administered by the Secretary of Urban Development and Ecology (SEDUE). Charlie Webster, a Texas Water Commission (TWC) employee in Westlaco reported that there is only one inspector in Tamaulipas and one or two in Chihuahua to enforce all of SEDUE's environmental laws. Bill Lockey, TWC district manager in the El Paso/Odessa area knows of only one SEDUE employee in Westlaco, reported that there is only one inspector in Tamaulipas and one or two in

In the United States, firms which keep waste on their property more than 90 days must obtain waste storage facility permits. Mexico has no limit on how long waste can be stored.

The 1976 U.S. law spells out the manner of waste treatment and disposal, provides for monitoring of disposal sites, and contains stringent penalties and enforcement mechanisms. Major 1984 amendments expanded waste management requirements, banned land disposal of liquid wastes, regulated underground storage tanks, and extended coverage to small firms generating hazardous waste.

While U.S. landfill regulations are no guarantee of safe disposal, Mexican hazardous waste landfills are likely to be worse. The first Mexican toxic waste sites were opened in 1981—16 years after the start of the maquiladora program. These sites don't come up to U.S. standards and their capacity is inadequate to even meet the needs of Mexican-owned industries before the growth of maquiladora waste.

One researcher estimates that 20 million tons of waste are generated each year, and that another 100 million tons of accumulated waste are improperly stored. (Ortiz-Monasterio, 1987). Reports on the number of licensed sites vary widely. While experts disagree on the number, they generally agree that capacity is grossly inadequate for properly handling the waste generated by Mexican companies. Indications are that until last year there were only two. Robert Sanchez, Director of the Colegio Fronteria de Norte, states there are now six small-sized, Mexican-operated hazardous waste disposal sites. Another expert says there are three sites licensed for all waste disposal and another 12 with limited uses. (Franco, 1988).

Binational Agreements on Transportation and Disposal

Mexican law requires that if raw chemicals or any other hazardous materials are imported for use in the maquiladoras, the toxic waste generated must be returned to the country of origin. Several agreements on transportation and disposal between the United States and Mexico enforce these agreements. One requires notification to, and permission from, the country receiving waste. For example, a U.S.-operated maquiladora must first find an American disposal site willing to accept its waste. Mexico must then ask EPA approval for the disposal. Similarly, U.S. firms operating in this country must get EPA and Mexican approval to ship wastes south of the border for disposal.

Mexican toxic sites were inadequate before the growth of Maquiladora waste.

Lauren Fondahl of EPA says most U.S. companies know they must get permission to export waste to Mexico. However, many U.S. maquiladoras believe that since the agreements require waste generated by products of American origin be returned to the United States, there is no need for agency notification or permission.

Regulating Chemicals in the Workplace

In the United States, OSHA sets standards to protect the health and safety of workers in the workplace. In 1971, the agency designated some 400 substances as air contaminants and set threshold-limit values for exposure. By 1988, two dozen substances were subjected to tougher standards on exposure limits, labeling, protective equipment, control procedures, monitoring and measuring employee exposure, medical exams, and government access to records of exposure-monitoring activities.

In Mexico, no such standards have yet been set to protect workers from exposure to industrial chemicals in plants, although new regulations are being developed on specific materials. But enforcing such standards will require resources not currently available. In Matamoros, for example, workers were unable to find any agencies in the state of Tamaulipas with instruments to measure air concentrations of chemicals. The equipment eventually had to be brought in from Mexico City.

Workers' Right-to-Know

OSHA's Hazard Communication Standard, or worker "right-to-know," was issued in 1983 and expanded to cover all workplaces in 1987. It mandates that chemical manufacturers and employers provide information about hazardous chemicals through Material Safety Data Sheets (MSDSs) and labels. It also requires that workers be given notification and training on chemicals used in their workplaces.

Mexico has no agency equivalent to OSHA. However, "Mixed Commissions" or labor-man-

agement committees are required by the Department of Labor and Social Security under Section 19, Articles 193-212, of the General Law on Health and Safety in the Workplace. According to Rene Franco, an environmental engineer in Juarez who is a health and safety consultant to the maquiladora industry, these commissions have official status and can investigate any concerns regarding safety, lighting, noise, chemical exposure or other unsafe working conditions.

Workers get information by removing labels and sneaking them out.

Franco states that these commissions look at the Mexican equivalent of MSDSs in their evaluation of chemical concerns. If problems are not resolved at the plant level, assistance can be officially requested from the Department of Labor. Franco claims that 95 percent of the industrial audits he conducts each year are the product of good corporate policies rather than agency requirements. While Franco believes maquiladora plants are pushing other Mexican industries to meet U.S. standards, he concedes that the response to the issues of environmental and worker protection varies widely.

Workers and organizers interviewed in Matamoros claim that most companies have resisted setting up labor-management committees and workers generally get information about chemicals they are using by removing labels from containers and sneaking them out of their workplaces. One Texas organizer said that the number of companies setting up committees is growing, but believes this is happening only because workers are organizing, teaching themselves about chemical risks and workplace rights, and obtaining union representation on these issues.

Emergency Response Procedures

The 1986 Superfund Amendments and Reauthorization Act requires establishment in the United States of local emergency response plans for responding to hazardous material accidents and to make information available to the entire community. State Emergency Planning Commissions and Local Emergency Planning Committees (LEPC) must be established to develop and oversee these plans.

Such planning must include:

- Identification of facilities and transportation routes for extremely hazardous substances.
- Emergency response procedures for on-site and off-site accidents.
- Emergency notification procedures.
- Methods for predicting where a release might occur and the areas and population which would be affected.
- An inventory of community and industry emergency equipment and facilities and training for emergency response personnel.
- Evacuation plans.

Mexico and the United States have established joint contingency plans for accidental releases of hazardous substances along the border. Under this arrangement, bordering towns are supposed to develop joint plans for emergency preparedness and response.

The agreement calls on states in both countries to develop measures for reporting polluting incidents, to institute appropriate and timely measures to monitor and restrict the spread of spilled or released contaminents, and to assure that there are adequate means to respond to an incident.

II. Hazardous Waste Disposal Practices

Many wastes are undetected when crossing the border in either direction.

A 1986 survey by El Colegio de la Frontera Norte showed that only 20 out of 772 maquiladora plants along the entire U.S.-Mexican border notified EPA that they were returning waste to the United States. Yet, 86 percent of the surveyed plants use toxic materials. (Juffer, 1988). It is conservatively estimated that plants in Ciudad Juarez alone generate 5,000 tons of waste a year. (Pinkerton, 1988).

Data compiled by the Texas Water Commission reveal that only 11 of 400 maquiladora plants operating along the Texas border reported returning waste to the United States in 1987. A year later, 90 maquiladoras filed such reports.

The Border Ecology Project reported that although substantial amounts of hazardous waste are supposedly being shipped from Agua Prieta plants back to the United States, no reports of such shipments have been recorded at the border.

The San Francisco Chronicle reported that approximately 100 maquiladoras operated in Mexicali in 1986. But records of EPA Region 9 in California show that only two filed notice that they sent hazardous wastes back to the United States that year.

Why the discrepancy between the amount of waste being generated and the amount reported as being returned to the United States for proper disposal?

Inadequate Tracking

Although United States regulations require tracking through manifests, many wastes may cross the border unrecorded in either direction. The two countries have different definitions of waste and their statutes and regulations often are inconsistent.

Roger Chacon the technical vice president of an El Paso waste storage and transportation firm, agrees that some waste is probably being dumped. He believes that inadequate reporting is also part of the problem. Chacon said his company alone transported hazardous waste to United States dump sites for at least 35 companies in 1987. TWC figures, however, showed only 11 companies returning waste during that same year. Chacon reports transporting waste for 80 of an estimated 362 El Paso maquiladoras in 1988, and Emilio

Bruna, owner of IESCO, a consulting and transportation firm for maquiladora operators, reports handling wastes for an additional 30 maquiladoras.

Another problem is with Customs. Hector Villa of the TWC states that Customs in El Paso does not always check for the manifests required from trucks carrying hazardous waste. On June 30, 1988, the TWC stopped all trucks going both ways across the border and found many Mexican waste haulers entering the United States without proper manifests.

Loopholes for Companies Buying Raw Materials in Mexico

Loopholes make it possible for United States-run maquiladoras to buy raw materials in Mexico, without having to return the waste to the United States for disposal. It is not clear what rule applies if a company uses some hazardous materials from both countries and they end up in the same waste stream.

Waste "Donations" to Charities

Mexican law permits the "donation" of hazardous wastes to charitable organizations which then sell them to recyclers. Although this option isn't supposed to apply to the maquiladoras, it is not known how Mexican agencies or waste-producing companies interpret this regulation.

Exemptions for Waste Being Recycled

It appears that some maquiladoras invoke the recycling provision for some solvents which are actually being dumped or disposed of in Mexican landfills. There is an incentive for not returning solvents to the United States, since tighter RCRA regulations now require treatment and prohibit the less expensive landfill disposal. Nonetheless, the residue from recycled material is still supposed to be disposed of in the United States.

Environmental engineer Franco says some companies have found a way of circumventing the requirement that solvent residues be returned to the United States. He offers this example: "A maquiladora buys trichloroethylene (TCE) from the United States. It is used to clean some products in the Mexican plant and is now a waste product. The company returns it to the United States and sells it back to a Mexican solvent recycling company which, in turn, takes it back to Mexico to recycle at a lower cost than in the United States. The remaining residue is now Mexican waste and can be disposed of in that country.

TWC district manager Lockey visited one of the growing number of recycling facilities in Mexico and found conditions which would not meet United States requirements under RCRA. The company—Quimica Fortek in Chihuahua—had no safety training, inadequate safety equipment for workers, and chemical spillage outside its facility. It is believed many recycling operations know little about what they are handling or how to operate such a facility properly.

Confusion About the Definition of Hazardous Waste

Most maquiladoras don't even know what wastes Mexico regulates as hazardous. The Mexican government didn't develop such a list until 1987 and is still trying to bring it into line with United States standards.

Dumping of Hazardous Wastes

There is widespread suspicion that some significant dumping may be occurring—into the Rio Grande, the New River, down drain pipes, out in rural areas, or on company property. Some companies give their waste to haulers and don't ask questions about its destination.

Here are some of the concerns:

- The San Francisco Examiner reported concerns that some Mexicali maquiladoras were dumping industrial waste directly into underground pipes connecting most industries to the city sewer system. (Kistner, 1986).
- The California Regional Water Quality Control Board can't formally inspect sites in Mexico, so it has no way of knowing what dumping or contamination may be occurring.
- Environmental engineer Franco believes some plant operators sell drums of waste to small-time operators who dump the chemicals in the middle of the desert or in someone's backyard. Franco suspects other companies mix hazardous waste with regular trash and dispose of it as nonhazardous waste. (Pinkerton, 1988).

Companies give the waste to their haulers and don't ask questions.

Stockpiling Waste on Company Property

Considerable waste is being stored on-site because Mexico has no 90-day accumulation rule similar to the one in the United States. TWC's Lockey reports seeing layer upon layer of barrels containing waste stored on the property of a Juarez maquiladora. The study by El Colegio de la Fronteria Norte states: "Many companies have been storing dangerous waste in drums inside their assembly plants," it says, and "once they run out of space, they will get rid of these containers on clandestine disposal sites." (Juffer, 1988).

However, the study concedes there are no reliable estimates on the volume of waste being discharged by maquiladora plants. Due for release shortly, the study will point not so much to documented cases of dumping, but to the lack of adequate waste disposal sites in Mexico and the lack of reporting of proper disposal as indicators that a lot of waste is being mishandled.

Dumping Incidents

While the full extent of the problem can't be determined, these examples provide reason for serious concern:

- The San Francisco Examiner blames United States-owned maquiladoras for turning California's New River into "one of the dirtiest in the United States." (Kistner, 1986).

• The Examiner also reported that in 1986, Chromizing—which produces gas turbines and is a subsidiary of a California company—had a permit to send aluminum oxide and fluoride waste to an industrial dump 20 miles southwest of Mexicali. The dump site was finally closed by Mexican authorities because it was littered with chemical barrels, hospital waste, oily sludge and dog carcasses and threatened the Laguna Salada, a desert lake fed by drainage from the Colorado River.

• In 1987, a huge mountain of plastic bags dumped illegally on Mexican land by a subsidiary of Parker Hannifin Corp. of Cleveland was discovered to be the source of two years of clogging pumps that served a waterfowl area in the Audubon's Sabal Palms Sanctuary in Texas. The dump was mysteriously set on fire 24 hours after the Ohio company promised to clear away the tons of dumped plastics. Faced with concerns about air exposure from the toxics released by the burning plastics, the runoff of burned materials into the river, and the threat to marine life, the company cleaned up the remains from the fire.

• In January 1987, Matamoros newspapers reported that 12 maquiladoras had been fined for dumping contaminated water into canals leading to the Rio Grande. Mexican officials refused to provide information on the fines, saying only that the companies may have been "warned" to end the practice.

• The sale of recycled chemical drums from the maquiladoras is rampant in Mexico. They are sold openly in Juarez and end up in areas cluttered with makeshift shacks where residents use them to store water for washing and drinking.

• In early 1988, a General Motors subsidiary was discovered dumping hundreds of barrels of toxics at a desert waste site less than two miles from Matamoros's most popular recreational beach. Mexican authorities said the site is for non-toxic waste and that the GM subsidiary received permits limited to such non-contaminants as plastic and rubber. (Vindell & Reinert, 1988).

• Many United States companies are sending wastes to dumps in Mexico because it's cheaper than paying for proper disposal or treatment in this country. Texas Water Commission records reported that groundwater supplies are limited—in both quantity and quality—throughout much of the Rio Grande Valley, leading to increased competition between agricultural and municipal interests for a limited amount of surface water.

Areas with industries sitting atop shallow water tables risk losing future water supplies to contamination. Increased depletion of the Rio Grande will lead to more concentration of toxic material and a higher risk of aquifer contamination.

III. Risks to Water Supplies

As Maquiladoras grow, so grows the waste in the Rio Grande.

Testing for Toxics in the Rio Grande

Testing along the Rio Grande for industrial contaminants is almost nonexistent. The Austin American-Statesman reported that United States and Mexican officials and ecologists are unaware of any surface water studies on chemical contamination.

In 1988, the Texas Water Commission found significant levels of copper, selenium and mercury in the tissue of fish pulled from the Rio Grande near Laredo, Tex. But the absence of any earlier data made it impossible to determine whether the problem is due to industrial discharges or runoff from mining activities.

The situation is more acute in Nuevo Laredo, Mexico, which withdraws its drinking water below the point where the city discharges its sewage into the Rio Grande. J. R. Mathis, head of the Laredo Water and Sewage Department, believes Nuevo Laredo treats at the most 50 to 60 percent of its water. The remainder bypasses the inadequate treatment facility and recontaminates the entire supply on which residents depend for cooking, bathing and washing as well as drinking.

Mathis believes there is no testing in this part of Mexico for industrial contaminants in drinking water. Where Mexican cities dump sewage into the Rio Grande, there is also concern about industrial wastes that might enter sewage lines. San Ygnacio and Zapata cities south of Nuevo Laredo's discharge points and north of Falcon Lake where pollutants are further diluted may also receive water polluted with high levels of industrial contaminants.

Each year, the Texas Department of Health (TDH) is responsible for testing treated water from public supplies. In 1987, TDH tested all water systems with over 10,000 connections and in 1989 will test systems with over 3,300 connections. Larry Mitchell with TDH states that, thus far, industrial chemicals have not been discovered in the treated water. Since this testing is post-treatment, it provides no information on what might be present prior to treatment.

Bob Ybarra, United States director for the International Boundary and Water Control Committee, reports that Juarez treats its sewage in ponds and then uses the water for agriculture. So the major risks from bacterial and industrial contaminants may be to the workers in the fields and consumers in both Mexico and the United States who eat foods grown in these areas. Most of the agricultural runoff goes into interior floodway areas, posing a risk to groundwater.

With the real extent of industrial contamination in the Rio Grande unknown, the major concern on the United States side was expressed this way by the Laredo Water and Sewage Department's J. R. Mathis: "As maquiladoras increase in number and production, we will get toxic waste in the river which we can't treat out and which is detrimental to the human system."

Testing for Human Wastes in the Rio Grande

Testing in Texas has been primarily for contaminants from human waste. The TWC, International Water and Boundary Control, and Mexican officials coordinate some testing at 20 points along the river. They test for fecal coliform, ph content, chlorides, sulfates and dissolved solids. Extensive sampling conducted in and south of Laredo is for human waste indicators such as fecal coliform. Both the TWC and the Laredo Water and Sewage Department report very high fecal coliform levels, especially south of the 14 points at which Nuevo Laredo dumps raw sewage.

With growth in Nuevo Laredo, the daily dumping of raw sewage increased from 20 million gallons in 1984 to 25 million gallons currently. The results of increased sewage dumping are obvious when comparing the average bacteria count which is in the hundreds north of Nuevo Laredo's discharge and in the hundreds of thousands south of the last discharge point. Mathis says the levels of bacteria along some points between Nuevo Laredo and Lake Falcon are so high that it makes the lake "one of the largest sewage ponds in the United States" One local resident expressed concern about the increased amounts of chlorine which might be in local drinking water due to the need to treat for increasing levels of fecal contamination.

Franco states that in Juarez there is no sewage treatment system for its growing population, so waste used in the plants goes into a canal that is used for irrigating crops. (Pinkerton, 1988.) Although the raw sewage dumped into the canals is not supposed to be used to irrigate vegetables, no one really knows where it goes.

Dr. Irene Cech, a professor of environmental science and hydrology at the University of Texas, describes a study of the hundreds of wells which have been drilled overnight by the Mexican government in response to rapid growth in Juarez. The study revealed that all wells tested were contaminated with bacterial pollution which had leached through the porous soil from the drainage ditches.

Rio Grande Drinking Water Supplies and Cancer Rates

A study begun in 1985 may someday show a definite link between the drinking of Rio Grande water and high cancer rates. Cech noted that to date, 33 counties —all of which get their drinking water from the river—show statistically higher rates of liver and gall bladder cancer than the national average. In three counties which do not get their water from the Rio Grande, the rates are not abnormally high.

Cech stresses that a number of concerns have been raised about the Texas Department of Health's tests of public water supplies:

- Testing doesn't cover all industrial chemicals.
- State labs are overloaded, so some testing may be inaccurate.
- Many people living along the Rio Grande don't use public drinking water supplies or live in small communities where tests are not being made.
- Individual chemicals may be found at levels below the limits set by the Safe Drinking Water Act, but the combination of such chemicals may cause unanticipated damage to humans.
- Some testing may take place at times when contaminant levels in public water supplies may be lower than normal.

Juarez waste goes into the canals for irrigating crops.

Findings in Arizona and California

Border Ecology Project reports on tests which have shown elevated levels of toxic chemicals near the Maquiladora Industrial Park in Nogalas. Water samples from four Aqua Prieta drinking wells and a section of the Aqua Prieta River show the presence of some chemicals in drinking water and sewage. To obtain more complete details, it has been recommended that monitoring wells be placed closer to industrial sources in Nogalas and Aqua Prieta. Experts warn that the aquifer may already be contaminated, since its pumps are located hundreds of feet below the surface and at some distance from the current source of contamination.

Testing of the New River where it enters California shows the presence of more than 100 industrial chemicals. In 1986, the San Francisco Examiner reported extensive contamination of the river which flows through California's lettuce belt and into the Salton Sea, the state's largest lake. The newspaper quoted an EPA official as saying that the New River "contains every disease known in the Western Hemisphere." (Kay, 1986).

In another article, the San Francisco Examiner reported that maquiladoras with close ties to United States corporations are contributing to the problem, including:

- Fabrica de Papel San Francisco, a paper recycling plant, was suspected by United States environmental officials of discharging high levels of sulfides and pesticides. It is 49 percent owned by a subsidiary of San Francisco-based Crown Zellerbach.
- Quimica Organica has been identified by both United States and Mexican officials as one of the worst polluters. At one time it was owned by B.F. Goodrich Co., which produced pesticides and other toxic chemicals at the maquiladora. Although no longer owned by a United States company, the plant sells 40 percent of its products to American firms, with Uniroyal as its largest buyer.

Every known disease can be found in the New River.

California has been considering a $150-million bond issue to finance cleaning up sewage and toxics dumped on the Mexican side of the border. An official report put it this way:

"To bring the New River into full compliance with the standards set forth in...the Mexican-American Water Treaty will predictably be a costly process. Much of these costs upon government budgets could be averted if the Mexican government would undertake vigorous regulatory actions against the industrial dischargers." (Gruenberg, Calif. Regional Water Quality Control Board 1983).

IV. Communities at Risk

The Danger of Hazardous Materials Accidents

"The potential for an incident involving hazardous materials in Cameron County is high, (and) the majority of what is brought over from Mexico by truck or rail is unknown. It is only a matter of time before a Mexican truck carrying hazardous materials overturns and seriously contaminates a populated area."

That's the conclusion reached in a 1988 study by the LBJ School at the University of Texas in Austin. (Hadden, 1988).

The officer was writing a ticket when some unknown liquid spewed all over him.

There are two bridge crossings—heavily traveled by both pedestrians and vehicles—between Brownsville and Matamoros. They lie close to densely populated business districts on both sides of the border. To reduce the risk associated with the transport of hazardous material, consideration is being given to building a third bridge away from populated areas.

There is concern about transporting hazardous materials through El Paso. Primary routes include an interstate highway and two rail lines that run through the center of the city. The railway tracks are in cement ditches below street level and would be difficult to reach in case of an accident. Because of the close proximity of El Paso and Juarez, a serious incident in either could have major implications for the other.

The Transportation of Hazardous Materials by Mexican Truckers

American trucks can't enter Mexico to deliver or pick up hazardous materials, but Mexican trucks are free to enter the United States. According to the LBJ School study, "The Mexican trucks do not display the required placards and do not abide by the federal weight limitations." Jackie Lockett with the Cameron County LEPC believes that the Mexican transporters generally overload their trucks.

Ben Reyna of the Brownsville Police Department says his department writes tickets "galore" when inspecting Mexican trucks during roadblocks. They commonly write-up five to six tickets for an 18-wheeler and sometimes as many as 40. He cites such common problems as violations on placarding, manifests, weight, and tail and brake lights. Reyna describes one incident in which he was standing behind a Mexican truck writing up tickets when a container valve broke, spewing some unknown black liquid over him. He states that most violations involve Mexican trucks. The department is forced to detain Mexican drivers until they see a judge and pay their fine in order to guarantee payment.

The Border Ecology Project reports that one United States Customs agent recently stopped a truck hauling loosely packed barrels of 1-1-1 trichlorethane to a maquiladora in Aqua Prieta and arranged through Arizona's Department of Public Safety to cite the driver for a DOT violation.

Chemicals of Concern

Under prodding by Cameron County residents and Members of Congress, Customs conducted a one-time survey of chemicals imported from Mexico. More than 70 toxic materials including hydrogen fluoride and pentachlorophenol were logged as crossing the border in a 25-day period. But Customs wasn't familiar with chemical names, as illustrated by obvious misspellings and non-specific descriptions of the chemicals.

Hydrogen Fluoride

HF has been of extreme concern since 1986 studies showed it to be 100 times more dangerous than previously believed.

Says Fred Millar of the Environmental Policy Institute: "If there is any chemical in the United States that poses a threat of a Bhopal disaster, it's probably hydrogen fluoride." He contends that it can be replaced by much safer alternatives and has been substituted by at least 60 refineries in the United States. In 1987, a release of HF from the Marathon Oil Co. plant in Texas City spread a toxic cloud over the city, forced evacuation of 3,000 residents and sent hundreds of people to the hospital. Millar emphasizes that if it had been a release of liquid instead of vapor, "thousands would likely have died." (Environmental Policy Institute, 1987).

American firms have close ties with two plants that produce hydrofluoric acid in Mexico. Du Pont owns a 30-percent interest in Quimica Fluor in Matamoros and a Du Pont subsidiary buys 85 percent of its product. Allied Chemicals owns a 49-percent share of Quimobasico in Monterrey.

Quimica produces 100 million pounds of HF each year at a plant along the expanding edge of Matamoros. The small community of Ejido Guadalupe, with 2,000 residents, is about one block upwind from the plant, and housing is moving in the direction of the plant in response to the city's rapid growth. The plant is four miles from the center of Matamoros. Trains carrying raw chemicals and finished products move on tracks which start at the plant, cross a bridge which also carries cars and trucks, and runs along the west side of Brownsville, eight blocks from the center of that Texas community.

The 1986 studies indicate that the release of one-third of the contents of an unpressurized HF tank truck could produce a toxic cloud with a peak lethal effect as far as 4.4 miles downwind, and could be "immediately dangerous to life and health" as far away as 7.1 miles. (Environmental Policy Institute, 1987).

Residents of Ejido Guadalupe blame Quimica for a number of problems. Farmers say fumes have damaged crops and fruit trees and threaten their children's health.

Extremely high toxic levels have been found in all sorghum plants in a six-kilometer radius of the plant.

Farmers report that a release from the plant forced the evacuation of 3,000 people in 1986. Quimica claims the most recent accident was in 1980. (Pinkerton, 1988).

Pentachlorophenol

This is a highly toxic wood preservative and a major cause of dioxin contamination in the environment. It is already banned in Sweden and West Germany.

At the time EPA was negotiating dioxin limits with Idacon in Houston and Vulcan Chemicals in Wichita, a penta plant—Productos de Preservacion —was being built in Mexico under the maquiladora program's tax advantage.

Idacon is connected with the maquiladora, and Vulcan is the last remaining United States producer of penta, whose waste is listed by EPA as "acutely hazardous." Vulcan currently is licensed to accept dioxin-contaminated sludge. It is not known how Productos de Preservacion disposes of its penta waste. EPA requires Vulcan to conduct monthly tests of dioxin levels. But no one knows if the maquiladora conducts similar tests. As Greenpeace points out:

"United States companies operating in Mexico frequently enjoy obvious advantages: lower labor costs, tax savings and avoidance of more stringent United States environmental regulations. It would appear that all three advantages are applicable to Idacon's new plant producing penta in Mexico." (Sloan and Perivier, 1988).

Transportation and storage of penta products along the border include rail transport of Pentasolve, a raw material, to a Brownsville transfer terminal where it's stored in two 65,000-gallon tanks. Four tank trucks, each carrying 5,000 gallons of Pentasolve, transport loads to the Matamoros production plant daily. They return to Brownsville each day with 20,000 gallons of finished product which goes directly into waiting rail cars or storage tanks. As much as 15,000 gallons a day of a hydrochloric acid byproduct also is sent from Matamoros to the terminal. (Greenpeace, 1987).

Productos de Preservacion has been responsible for two hydrochloric spills according to Lockett of Cameron County. One occurred at a transfer plant in Brownsville as the acid was being removed from a rail car. Chemtrec —the industry-funded response network—was notified, but the wrong chemical was reported. Shortly before Chemtrec employees arrived to deal with what they were told was a "hydrofluoric" spill, they were given the correct chemical name. The second case involved the collapse of a storage tank holding hydrochloric acid at the Brownsville port, spilling the acid onto the soil and releasing a small toxic cloud into the air. Although relatively minor, these spills illustrate the potential for accidents more severe in nature.

Lack of Resources, Information and Coordination

The LBJ School study pointed to the inadequacy of local resources for emergency response. Cameron County is considering guidelines for training emergency personnel, but doesn't have the funds to do the job. The Brownsville fire department and emergency medical service do not require training for dealing with hazardous materials. And there is little specialized equipment to respond to accidents. (Hadden, 1988).

In a recent mock accident in Cameron County, the fire department received a call for assistance for an incident involving a "radioactive material" in a vehicle in downtown Brownsville. It took 20 minutes for a response unit to reach the scene.

Cameron County has a local emergency response committee to develop plans and implement community right-to-know provisions. But funds aren't available to help carry out the program, the committee has been plagued by inadequate cooperation from the United States Customs Service, and is hampered by a lack of coordination with police or fire authorities across the border.

Information on chemicals being transported and stored is sorely lacking. United States regulations on providing chemical lists and transporting hazardous materials do not apply to Mexico, even though an accident there could seriously impact the United States side. Mexican trucks traveling through Texas present an even more direct risk.

United States Customs is supposed to receive manifest copies from Mexican trucks crossing into the United States. Manifests are then to be sent to EPA's National Enforcement Investigation Center in Denver. According to one reporter, agents who are supposed to verify manifests against shipments have been instructed by Customs officials not to open containers or otherwise check the contents of trucks in order to protect their own safety. (Bonivita, 1987). Reyna states that Brownsville police investigations during roadblocks reveal that a majority of drivers of Mexican trucks do not have any kind of manifest or any idea of what they are carrying.

Inspectors told not to risk opening those containers.

Border Ecology Project researchers argue that, "to some extent, all these agreements and responsibilities seem to be in vain." They point to interviews at the Douglas/Aqua Prieta area and Nogalas, when two Customs officials said they had never seen shipments of hazardous waste cross the border, while one said that he may have seen a shipment cross, but it was years ago. (Kamp and Gregory, 1988).

EPA's efforts to improve the availability of such information included plans to develop a joint inventory of hazardous chemicals within 10 kilometers of the border. EPA has begun compiling such inventories for the sister-city response plans for Calexico and Mexicali. At a more local level, the

Cameron County LEPC has begun working with the Maquiladora Association and hopes to encourage maquiladoras to voluntarily provide chemical inventories vital to emergency planning.

U.S. worries don't stop the building of incinerators.

Project researchers have proposed a single communications code allowing United States and Mexican firms handling hazardous materials to record their use in border areas. Mexican and United States Customs officials must become the inspectors and record-keepers for all hazardous materials in border areas. (Kamp and Gregory, 1988).

Air Pollution

Jim Yarbrough, an EPA meteorologist, has been involved in an on-going agreement between Mexico and the United States on air pollution. There are deep concerns about the emission of solvents into the air by the growing number of electronics plants in the maquiladora complex.

Yarbrough is concerned that the solvents will contribute to the greenhouse effect. Hydrofluoric acid is widely used to make chlorofluorcarbons which are also blamed for contributing to the destruction of the ozone.

Mexico has provided EPA with an initial inventory of six types of pollutants being emitted from plants in Juarez and Tijuana. But they are defined only in the most general of terms, and there is no current way of knowing what emissions Mexico is measuring or how sophisticated are the measurement techniques.

There is also a potential for further environmental damage as a result of burning at landfills. The one at Aqua Prieta contains unknown amounts and types of maquiladora waste, and is adding to the existing pollution over Aqua Prieta and Douglas on the United States side. (Kamp and Gregory, 1988). Brownsville authorities worry about proposed construction of a large incinerator to serve an entire maquiladora park in Matamoros. (Lockett, 1988). And according to EPA's Allan Davis in Dallas, there are plans for seven more hazardous waste incinerators in Mexico, four of them in the border area where the maquiladoras are clustered.

V. Maquiladora Workers at Risk

The maquiladora workforce—composed mostly of young women and girls—is particularly at risk because of the lack of health and safety protections on the job. The problem takes many forms, including:

- Denial of information on chemicals used in the workplace.
- Machinery that lacks safeguards to prevent severe injury.
- Lack of protective clothing and equipment.
- Intimidation through threats of job loss or wage cuts.
- Firing of pregnant women.

PCBs turn the workers' hands black.

- Refusal to hire women with children or women who are over a certain age.

An examination of these harsh and unfair conditions contrasts sharply with the myth being perpetuated by the maquiladoras that adequate attention is paid to worker health and safety.

Lack of Protection for Mother and Fetus

The most dramatic danger from chemical exposure in maquiladora plants has been to unborn children.

A group of mild to profoundly retarded children, all of whom were exposed as fetuses when their mothers worked at the United States-owned Mallory Capacitators plant 10 to 14 years ago, now attend a special education school in Matamoros.

Dr. Isabel de la Alfonso, the school's director, has identified 22 children she believes suffered damage due to their mothers' exposure to PCBs. A separate study shows there are 10 more former Mallory workers whose children have similar damage. (Juffer, 1988).

Women's hands were exposed directly to PCBs. The chemical often splashed onto their arms and faces. They suffered rashes, their fingernails turned black, and they experienced nausea, headaches and fainting while at the plant.

Mallory was swallowed up in a corporate takeover after closing its Matamoros plant and has been through several buyouts or mergers since. This left a corporate paper trail, but no trace of a responsible party and no way to find out what range of chemicals was used at the facility. (Beebe, 1987).

Mexico's General Law on Health and Safety in the Workplace requires that when the health of pregnant women or their fetuses is endangered, they are to be placed in other jobs. But the rule is commonly violated in the maquiladoras. And without adequate testing equipment, exposures may occur in work areas thought to be relatively safe.

Reports by Maquiladora Workers

The following is based on visits with maquiladora workers at their homes in Matamoros on September 8, 1988 and on interviews with Reynosa maquiladora workers by McAllen Monitor reporters Barbara King and Arturo Longoria in Harlingen in June 1987. All names have been changed to protect the persons interviewed.

- Elena, 23, has been working at NECO, an electrical components manufacturer, and a subsidiary

of Pittsburgh-based Allegheny International, Inc. She works with strong chemicals, but doesn't know which ones. Her symptoms include breathing difficulties, nausea, headaches, stomach problems, depression and emotional changes. When away from the plant for a few days, her symptoms disappear, only to return when she goes back to work. She is allowed to see a doctor at company expense, but it has to be the one chosen by management. The doctor has diagnosed her problems as "psychiatric."

• Another NECO worker reports pervasive smells of strong chemicals which she believes are solvents. She worked in the plant while pregnant and says that pregnant women were forced to continue working with the chemicals.

• Patricia first worked at Deltronics, a subsidiary of General Motors Corp. She says lots of workers became sick and many finally quit when they were refused masks while working with thinners. Exposure produced such symptoms as drugged or intoxicated behavior and red, irritated eyes.

She later worked at Condura, a subsidiary of Eaton Corp. of Cleveland. She says women working with solvents and resin fluxes were not provided with gloves and that only two pairs of goggles were provided on an assembly line where 50 women solder electronic parts. She is no longer working because of an injury which severely disfigured her thumb. Although Condura claims it has a nurse on staff at all times, none was present when she was injured, and fellow workers used a first aid kit to provide protection.

• With 8,500 workers in three plants, Zenith is the largest maquiladora in Reynosa. The company claims its plants voluntarily meet OSHA standards. But workers disagree and express concern about exposure to methylene chloride, the lack of fume extractors, and the handling of silicon without gloves or goggles.

• Maria, 35, worked at Zenith's Partes de Television de Reynosa plant. For ten years, she used soldering irons and breathed lead fumes and was exposed to hazardous chemicals. She has arthritic-like symptoms and can no longer work. Doctors blame her condition on working with chemicals and she receives monthly social security checks. Another worker reported dangers from soldering fumes in the Zenith plant because managers resisted installing individual extractors in all areas of the factory to draw off toxic fumes.

• Although the maquiladoras hire mostly young women, the Brownsville Rubber Co., a subsidiary of Parker Hannifin of Cleveland, is an exception. It hires men almost exclusively because heavy lifting is required and most work is done near hot ovens. Burns are commonplace, and many workers have lost fingers in machinery.

The Lack of Data on the Impact of Workplace Chemicals

Few studies have been conducted on health and safety conditions in the maquiladoras, and the extent of serious plant accidents tends to remain unknown, unless the effect is dramatic enough to be reported in the media.

In 1980, for example, the press reported that 35 workers at a Sylvania subsidiary were hospitalized in Juarez, suffering from severe nausea, vomiting and loss of consciousness following widespread exposure to fumes from a malfunctioning vat containing a carcinogen. The next day, company and government officials claimed the workers were merely suffering from "collective psychosis of a an imaginary ailment." (Erb/El Fonterrizo, 1980).

A similar incident of mass exposure occurred in Aqua Prieta at Equipo Aotomotriz, a subsidiary of Gateway Industries of Hazel Crest, Ill. A chemical release sent a number of workers to the hospital. (Kamp and Gregory, 1988).

Two pairs of goggles were issued to the 50 women.

In 1982, at a General Motors subsidiary called Rimir, a worker died following exposure to chemicals in a huge vat he was cleaning. Another worker reported seeing the man slip and lose his protective mask, but plant managers refused to provide any details to police or the press.

Dr. Monica Jasis, a researcher with El Colegio de la Frontera Norte, reported a high incidence of health problems among female workers in Tijuana plants. These included illness from inhaling lead fumes during soldering and eye problems caused by long hours bonding fine wires to circuit boards while peering through microscopes. She also indentified heart and blood pressure problems related to stress, and expressed concern about exposure to a wide range of toxic chemicals.

Jasis said that opposition from maquiladora owners and the refusal of government officials to respond to questions put a halt to her government-funded studies. (Erb).

Worker Initiatives to Improve Conditions

A few maquiladoras have taken steps to improve conditions, but only when they've been forced to do so.

• Kemet, a Union Carbide subsidiary, lowered exposure levels as a result of years of activism by workers and the pressure which a church group brought to bear on the firm's corporate headquarters in the United States. Others report that the change can be traced to Union Carbide's actions at all its plants in the wake of its Bhopal chemical accident which killed over 2,800 people and injured 200,000 more. A health and safety commission of 16 people—composed equally of management and worker representatives—has been set up at Kemet. Mexican law requires such commissions at all maquiladoras, but many of these plants simply ignore the regulation.

• Under pressure from workers, P.E.A. Industrial, a subsidiary of ITT Corp., made improvements at its Rio Bravo plant. It has installed extractors and other safety equipment and has assigned one worker on each shift to monitor health and safety. But it's reported that conditions remain bad at ITT's other plants in Torreon and Saltillo.

VI. An Unsettling Future

There is reason to be pessimistic about the environmental future along the United States-Mexican border because there appears to be no end in sight to the mushrooming of the maquiladora industry.

Henry King, director of the Small Business Institute at the University of Texas in El Paso, predicts a second maquiladora boom in Juarez that could dwarf the nearly 30-percent growth rate that took place in 1987.

U.S. companies don't seem much deterred.

There are reports that United States corporations may soon be allowed to own the land they currently are leasing in Mexico. This change could lure even more American firms across the border by promising them added control of their Mexican operations.

But the United States isn't the only target for Mexico's plan to expand the maquiladora complex. Continued devaluation of the peso could draw increasing numbers of companies to Mexico in search of cheaper labor. Japanese, Canadian and West German companies have already opened maquiladora plants, and firms in other countries are weighing similar action.

The problem comes down to this:

The maquiladoras are already generating waste at a pace that exceeds Mexico's capacity to handle it. And the situation will deteriorate further as new firms enter the country.

Experts predict that electronics will be the fastest-growing maquiladora industry. More companies are moving toward finishing products which require cleaning, priming and painting. Companies involved in chemical production have also increased.

A growing trend toward more sophisticated and complex production processes—as opposed to the light-industry, sub-assembly operations that dominated the maquiladora industry in the past—may result in more use of hazardous substances and the additional production of toxic waste.

Juarez is the classic example of what's happening:

- It already has over 300 maquiladora plants.
- Its population has skyrocketed from 700,000 in 1980 to 1.2 million today.
- It has no sewage treatment system and no nearby state- of-the-art hazardous waste disposal facilities.

Additional stresses on border towns like Juarez will result in increased sewage problems and illegal toxic waste disposal. As the need for waste facilities increase and as pressure mounts to stop contaminating both sides of the border, there are certain to be new proposals to establish facilities in Mexico that would be inadequate to the task and that could, therefore, pose added health, safety and environmental dangers in both the United States and Mexico.

Some proposals have already been opposed by border residents.

- Two years ago, General Motors considered building a waste incinerator in Matamoros to serve an entire industrial park. Brownsville residents objected to burning waste near their border, just as residents in communities across the United States now question whether incineration is a safe alternative to land disposal.
- In 1987, an Arizona-based group, G Systems, Inc., wanted to start a toxic waste site in Naco, Sonora. But Mexican authorities refused to grant permission for the dump, and enough publicity was generated in Arizona to raise a groundswell of opposition to any such future plans. (Border Ecology Project).

Meanwhile, the failure of the Mexican government to develop adequate environmental safeguards means that disposal of maquiladora waste in the United States—particularly in the border states of Texas, Arizona and California—will intensify.

Citizen groups throughout the United States are already actively battling new or expanded landfill sitings and hazardous waste incinerators for their own wastes. So it's likely that, particularly throughout the border region, American citizens will not take kindly to the thought of accepting waste from United States-owned maquiladoras that have exported jobs out of this country.

But American companies don't seem deterred. They see increasing opportunity to capitalize on cheap labor and to escape stringent health, safety and environmental regulations in this country by shifting operations to Mexico.

While more and more United States corporations operating maquiladoras continue to ignore the consequences of the environmental damage they are causing to workers, their families, and the fragile ecosystem on both sides of the border, both countries must undertake a massive effort to address this alarming situation.

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Chairman GIBBONS. Thank you for your testimony.
Mr. Bruce.

STATEMENT OF HON. TERRY L. BRUCE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Mr. BRUCE. Thank you, Mr. Chairman and members of the subcommittee. I want to thank you for having this hearing and providing me with an opportunity to voice some of the concerns I have with the United States-Mexico Free Trade Agreement.

I believe it is essential that we hold an open and thorough discussion of this proposal, to ensure that any free trade agreement with Mexico is based in sound economics for the United States. I have often expressed concerns with this proposed agreement, but I want to make it clear again before this committee:

I am not opposed, in principle, to a free trade agreement with Mexico. In fact, the agreement with Mexico would provide investors in my district and other parts of the United States with access to Mexico's vast oil resources, which could greatly reduce our dependence on Persian Gulf oil. I have not criticized this agreement with the intention of stopping it, but really to reassure myself and others that it is based on sound economic principles.

I welcome a free trade agreement with Mexico, but even though you have accepted economic principles that have free and fair trade between our two countries, we must realize that it is more than the simple elimination of quotas and tariffs and other readily transparent barriers. There are nontransparent obstacles to free trade, such as trade distorting subsidies, which prevent the free and efficient flow of goods across the borders.

My concerns are with these nontransparent barriers. Even free trade purists will admit that Mexico provides industry with a number of trade distorting regulatory subsidies, primarily in the form of lower or unenforced labor standards, less stringent or unenforced environmental standards, or lower or unenforced agricultural sanitary and pesticide residue standards.

It seems to me that common sense would dictate that these nontransparent subsidies be included. Unfortunately, the Office of the U.S. Trade Representative has refused to include labor or environmental concerns in any of the negotiations. They have done this, despite the fact that the Omnibus Trade and Competitiveness Act of 1988 required that the promotion of respect for labor's rights be a principle of negotiating objective in any trade agreement, and this refusal by the USTR to abide by congressional directives raises my skepticism of their intention to consult with Congress after they have received congressional approval of fast track.

A true free trade agreement will ensure that trade-distorting labor subsidies are ended and recognize the basic rights of laborers to fair wages, which provide a reasonable standard of living. To do otherwise would not only promote the exploitation of Mexican workers, it would also undercut the wages and standards of living of our domestic labor force. And the question I keep asking: Would your U.S. workers be forced to accept lower wages, or would we forfeit the jobs, as was indicated by Ms. Kaptur's testimony?

Under the Occupational Safety and Health Administration, the United States has made great strides toward ensuring that machines and equipment meet basic requirements of health and safety. As a result of this policy, we have kept workplace injuries and fatalities to a minimum, and, fortunately, businesses of the United States have operated in an economic environment which allowed them to spend the money necessary to provide a safe workplace, and still remain competitive.

However, if a poorly considered agreement with Mexico does not end the Mexican subsidization of industry by failing to require that minimum health and safety standards be met, would our workers be forced into a more dangerous workplace, to remain competitive, or would they forfeit their jobs altogether. I think we owe it to the workers in this country to take the time to not only discuss worker safety issues, but also to make them part of the agreement. Just as we have made respect for workers rights a cornerstone of our international trade policy, we must also make respect for environment an objective of our international policy.

In the previous Congress, we just passed a clean air bill which corrects some of the air quality problems that accompany highly industrialized society. We strengthened our rights and environmental standards in the United States. I have to question whether it is prudent to allow Mexico to continue to subsidize rapid industrialization, at the expense of clean air and ground water. Some of that subsidization will undercut our own environmental protections.

U.S. businesses last year spent $95 billion complying with United States environmental regulations. If Mexico does not enforce its own pollution protection, will we also again be forced to lower our standards of environmental quality to remain competitive, or will we once again ship jobs to Mexico?

I do not deny and the Congress cannot deny that global political and economic trends are moving us toward a closer relationship with Mexico. I think we all recognize that, and I think that is why we are faced with this agreement, and most of us in this Congress welcome it. But by implementing a free trade agreement, without a thorough discussion of the provisions of that agreement, I think are both reckless and irresponsible.

Free trade, when implemented properly, can provide great benefits for both the United States and Mexico, and Canada if it is a part of that agreement, but like any other idea, it has to be rooted in practicality, not ideology.

I recognize and am willing to make reasonable adjustments to accommodate free trade, but I think we should make no mistake about it, we cannot adjust to poisoned ground water, we cannot adjust to polluted air, we cannot adjust to unsafe working conditions, we cannot adjust to $10 a day in pay, and a thoroughly thought-out and properly considered free trade agreement would not ask us to do so.

I have looked at the proposal very long and hard and I have tried to look at it fairly, but I cannot support something that violates common sense. I urge this committee to assert its statutory authority to ensure that this agreement is properly negotiated, and that is all we are asking from this committee and this Congress, that

environmental and labor subsidies be fully eliminated, and that this agreement is rooted in sound economics and fair trade.

I would like to respond to an argument that I hear often, that if we take this agreement off the fast track, that somehow this means the agreement will not occur.

Let me make one argument against that. The GATT agreement is some 40 years old. It was negotiated without fast track, and I would like to say that, yes, it is going to be very difficult to get a free trade agreement with Mexico and the United States. It will take a lot of hard work and a lot of difficult decisions. But if you do that agreement properly, as we did with GATT, then it will last 40 years, and each of the two parties will be satisfied over a long period of time with the resulting document.

My concern has always been that using fast track will leave us disappointed and eventually may leave the Mexicans disappointed. If we can do it with GATT, with all the multifarious objects involved with in that agreement, I do not understand why this Congress and this administration is not willing to take the time, energy, and effort to draft this agreement using non-fast-track procedures.

I thank the members of the committee and the chairman for your time.

[The prepared statement follows:]

THE HONORABLE TERRY L. BRUCE
TESTIMONY
WAYS AND MEANS SUBCOMMITTEE ON TRADE
FEBRUARY 20, 1991

I THANK THE TRADE SUBCOMMITTEE FOR HOLDING THIS HEARING AND PROVIDING ME WITH THE OPPORTUNITY TO VOICE MY CONCERNS WITH THE U.S.-MEXICO FREE TRADE AGREEMENT.

IT IS ESSENTIAL THAT WE HOLD AN OPEN AND THOROUGH DISCUSSION OF THIS PROPOSAL TO ENSURE THAT ANY FREE TRADE AGREEMENT WITH MEXICO HAS A BASIS IN SOUND ECONOMICS FOR THE UNITED STATES.

AS MANY OF YOU KNOW, I HAVE BEEN OUTSPOKEN IN VOICING SPECIFIC CONCERNS WITH THIS PROPOSED AGREEMENT. BUT, I WANT TO AGAIN MAKE IT CLEAR THAT I AM NOT OPPOSED IN PRINCIPLE TO A FREE TRADE AGREEMENT WITH MEXICO. IN FACT, AN AGREEMENT WHICH PROVIDES INVESTORS IN THE UNITED STATES WITH ACCESS TO MEXICO'S VAST OIL RESOURCES COULD GREATLY REDUCE OUR DEPENDENCE ON PERSIAN GULF OIL. I HAVE NOT CRITICIZED THIS AGREEMENT WITH THE INTENTION OF STOPPING IT, BUT RATHER WITH THE INTENTION OF ENSURING THAT IT IS BASED ON SOUND ECONOMICS FOR OUR COUNTRY.

IT IS AN ACCEPTED ECONOMIC PRINCIPLE THAT FREE AND FAIR TRADE IS BENEFICIAL TO ALL PARTIES INVOLVED. THEREFORE, I WELCOME A FREE TRADE AGREEMENT WITH MEXICO.

HOWEVER, IT ALSO AN ACCEPTED ECONOMIC PRINCIPLE THAT FREE AND FAIR TRADE INVOLVES MUCH MORE THAN THE SIMPLE ELIMINATION OF QUOTAS, TARIFFS, AND OTHER "TRANSPARENT" BARRIERS TO TRADE. THERE ARE OTHER "NONTRANSPARENT" OBSTACLES TO FREE TRADE SUCH AS TRADE DISTORTING SUBSIDIES WHICH PREVENT THE FREE AND EFFICIENT FLOW OF GOODS ACROSS BORDERS.

MY CONCERN WITH THIS AGREEMENT LIES WITH THESE OBSTACLES. EVEN FREE TRADE PURISTS WILL ADMIT THAT MEXICO PROVIDES INDUSTRY WITH A NUMBER OF TRADE DISTORTING REGULATORY SUBSIDIES, PRIMARILY IN THE FORM OF LOWER OR UNENFORCED LABOR STANDARDS, LESS STRINGENT OR UNENFORCED ENVIRONMENTAL STANDARDS, AND LOWER OR UNENFORCED AGRICULTURAL SANITARY AND PESTICIDE RESIDUE STANDARDS.

COMMON SENSE WOULD SEEM TO DICTATE THAT THESE ISSUES BE INCLUDED. UNFORTUNATELY, THE OFFICE OF THE U.S. TRADE REPRESENTATIVE HAS REFUSED TO INCLUDE LABOR, OR ENVIRONMENTAL CONCERNS IN THE NEGOTIATIONS. THEY HAVE DONE THIS DESPITE THE FACT THAT THE OMNIBUS TRADE AND COMPETITIVENESS ACT OF 1988 REQUIRED THAT THE PROMOTION OF RESPECT FOR WORKER'S RIGHTS BE A PRINCIPAL NEGOTIATING OBJECTIVE IN ANY TRADE AGREEMENT.

THIS REFUSAL BY U.S.T.R. TO COMPLY WITH CONGRESSIONAL DIRECTIVES, EVEN WHEN THEY ARE EMBODIED IN STATUTES, VALIDATES MY SKEPTICISM OF THEIR INTENTION TO CONSULT WITH CONGRESS AFTER THEY HAVE RECEIVED CONGRESSIONAL APPROVAL OF FAST TRACK.

A TRULY FREE TRADE AGREEMENT, WILL MUST ENSURE THAT TRADE DISTORTING LABOR SUBSIDIES ARE ENDED AND RECOGNIZE THE BASIC RIGHTS OF LABORERS TO FAIR WAGES WHICH PROVIDE A REASONABLE STANDARD OF LIVING. TO DO OTHERWISE, WOULD NOT ONLY PROMOTE THE EXPLOITATION OF MEXICAN WORKERS, IT WOULD ALSO UNDERCUT THE WAGES AND STANDARD OF LIVING OF OUR DOMESTIC LABOR FORCE. WOULD U.S. WORKERS BE FORCED TO ACCEPT LOWER WAGES? OR WOULD WE FORFEIT JOBS?

UNDER THE OCCUPATIONAL SAFETY AND HEALTH ADMINISTRATION, THE U.S. HAS MADE GREAT STRIDES TOWARD ENSURING THAT MACHINES AND EQUIPMENT MEET BASIC REQUIREMENTS OF HEALTH AND SAFETY. AS A RESULT OF THIS POLICY, WE HAVE KEPT WORK PLACE INJURIES AND FATALITIES TO A MINIMUM. FORTUNATELY BUSINESSES HAVE OPERATED IN AN ECONOMIC ENVIRONMENT WHICH ALLOWED THEM TO SPEND THE MONEY NECESSARY TO MAINTAIN A SAFE WORK PLACE AND STILL REMAIN COMPETITIVE. HOWEVER, IF A POORLY CONSIDERED

AGREEMENT DOES NOT END THE MEXICAN SUBSIDIZATION OF INDUSTRY BY FAILING TO REQUIRE THAT MINIMUM HEALTH AND SAFETY STANDARDS BE MET, WOULD OUR WORKERS BE FORCED INTO A MORE DANGEROUS WORK PLACE TO REMAIN COMPETITIVE? OR WOULD WE FORFEIT THE JOBS ALTOGETHER? WE OWE IT TO OUR WORKERS TO TAKE THE TIME TO NOT ONLY DISCUSS WORKER SAFETY ISSUES

BUT ALSO TO MAKE THEM PART OF ANY AGREEMENT.

JUST AS WE HAVE MADE RESPECT FOR WORKER'S RIGHTS A CORNERSTONE OF OUR INTERNATIONAL TRADE POLICY, SO WE MUST ALSO MAKE RESPECT FOR OUR ENVIRONMENT AN OBJECTIVE OF OUR INTERNATIONAL POLICY.

IN THE PREVIOUS CONGRESS, WE FINALLY SUCCEEDED IN PASSING A CLEAN AIR BILL WHICH CORRECTS SOME OF THE AIR QUALITY PROBLEMS WHICH ACCOMPANY A HIGHLY INDUSTRIALIZED SOCIETY. IN SO DOING WE STRENGTHENED WHAT ARE ALREADY THE TOUGHEST ENVIRONMENTAL STANDARDS IN THE WORLD. IS IT PRUDENT FOR MEXICO TO CONTINUE TO SUBSIDIZE RAPID INDUSTRIALIZATION AT THE EXPENSE OF CLEAN AIR AND GROUND WATER? SUCH SUBSIDIZATION COULD UNDERCUT OUR OWN ENVIRONMENTAL PROTECTIONS. U.S. BUSINESSES SPEND 95 BILLION DOLLARS PER YEAR COMPLYING WITH ENVIRONMENTAL REGULATIONS. IF MEXICO DOES NOT ENFORCE POLLUTION PROTECTIONS, WILL WE ONCE AGAIN BE FORCED TO LOWER OUR STANDARDS TO REMAIN COMPETITIVE? OR WILL WE AGAIN FORFEIT THE JOBS?

MR. CHAIRMAN, FOR TEN YEARS, WE HAVE STOOD BY AND ALLOWED THOSE WHO FANCIED THEMSELVES "EXPERTS" TO TELL US THAT BUDGET DEFICITS DON'T MATTER. FOR TEN YEARS, WE HAVE STOOD BY AND LET "EXPERTS" TELL US THAT TRADE DEFICITS DON'T MATTER. FOR TEN YEARS, WE HAVE STOOD BY AND LET "EXPERTS" TELL US THAT REPLACING HIGH WAGE MANUFACTURING JOBS WITH LOW WAGE SERVICE JOBS AT WAL-MART AND MCDONALD'S DOESN'T MATTER. NOW WE HAVE "EXPERTS" TELLING US THAT IT DOESN'T MATTER IF MEXICO USES ENVIRONMENTAL AND HUMAN CAPITAL SUBSIDIES TO DISTORT FREE AND FAIR TRADE. BUT WE ARE IN A RECESSION AND THIS COUNTRY HAS HAD ABOUT ALL OF THIS "EXPERTISE" IT CAN STAND.

WE CANNOT DENY THAT GLOBAL POLITICAL AND ECONOMIC TRENDS ARE MOVING US INTO A CLOSER RELATIONSHIP WITH MEXICO. IN FACT, WE WELCOME THEM. BUT TO ACCELERATE THIS PROCESS, BY IMPLEMENTING A FREE TRADE AGREEMENT WITHOUT A THOROUGH DISCUSSION OF THE PROVISIONS OF SUCH AN AGREEMENT, WOULD BE RECKLESS AND IRRESPONSIBLE.

FREE TRADE WHEN IMPLEMENTED PROPERLY CAN PROVIDE GREAT BENEFITS TO ALL INVOLVED. BUT LIKE ANY OTHER GOOD IDEA, IT MUST BE ROOTED IN PRACTICALITY, NOT IDEOLOGY.

WE RECOGNIZE AND ARE WILLING TO MAKE REASONABLE ADJUSTMENTS TO ACCOMMODATE FREE TRADE. BUT MAKE NO MISTAKE, WE CANNOT ADJUST TO POISONED GROUND WATER. WE CANNOT ADJUST TO POLLUTED AIR. WE CANNOT ADJUST TO UNSAFE WORKING CONDITIONS. WE CAN NOT ADJUST TO $10 DOLLARS FOR A DAY'S PAY. A PROPERLY THOUGHT OUT AND PROPERLY CONSIDERED FREE TRADE AGREEMENT WOULD NOT ASK US TO DO SO.

I HAVE LOOKED AT THIS PROPOSAL LONG AND HARD. I HAVE TRIED TO LOOK AT IT FAIRLY. BUT, I CANNOT SUPPORT SOMETHING WHICH VIOLATES COMMON SENSE. I URGE THE COMMITTEE TO ASSERT ITS STATUTORY AUTHORITY AND ENSURE THAT THIS AGREEMENT IS PROPERLY NEGOTIATED, THAT ENVIRONMENTAL AND LABOR SUBSIDIES ARE FULLY ELIMINATED AND THAT THIS AGREEMENT IS ROOTED IN SOUND ECONOMICS AND FAIR TRADE.

A DENIAL OF FAST TRACK AUTHORITY DOES NOT NECESSARILY MEAN THAT NEGOTIATIONS CANNOT TAKE PLACE. GATT IS PROBABLY THE MOST COMPREHENSIVE AND FAR-REACHING OF ANY TRADE AGREEMENT IN THE HISTORY OF THE UNITED STATES. YET WE WERE ABLE TO NEGOTIATE AND APPROVE GATT WITHOUT FAST TRACK PROCEDURES. GATT HAS STOOD FOR 40 YEARS AND PROVIDED A SOUND FOUNDATION FOR INTERNATIONAL TRADE POLICY. IT MAY BE TRUE THAT IT IS MORE DIFFICULT AND MORE TIME CONSUMING TO NEGOTIATE AN AGREEMENT WITHOUT FAST TRACK. BUT I THINK THAT IT IS ALSO TRUE THAT THE TIME AND EFFORT INVESTED IN SUCH NEGOTIATIONS OFTEN RESULTS IN A MORE SOUND, WORKABLE AND LONG LASTING AGREEMENT. WE SHOULD NOT BE

AFRAID TO INVEST THAT TIME AND EFFORT IN A U.S.-MEXICO FREE TRADE AGREEMENT. FAST TRACK AUTHORITY MUST EITHER BE DENIED OR AMENDED IN SUCH A WAY AS TO GUARANTEE THAT CONGRESS WILL HAVE SOME MEANS OF ENSURING THAT ITS CONCERNS ARE ADDRESSED.

THANK YOU, MR. CHAIRMAN, FOR THIS HEARING AND FOR YOUR CONTINUED EFFORTS TO MAKE SURE THAT AMERICANS ARE TREATED FAIRLY IN GLOBAL TRADE NEGOTIATIONS.

Chairman GIBBONS. Thank you very much.

Mr. McGrath.

Mr. MCGRATH. No questions.

Chairman GIBBONS. Mr. Levin.

Mr. LEVIN. I do not think I have any questions. I am sorry, Jim Kolbe, I missed your testimony, but I have had a chance to read it and I was glad I was here for your two distinguished colleagues.

I think the three of you rather embody well the—and here is Joe Kolter, whose testimony I missed, too, and I have read it. The four of you, I am sorry I did not see you there, the span of your interest embodies the different perspectives and the different experiences that we bring to this question.

I hope very much, Mr. Chairman, that we will consider this pretty fair sampling of some of the pluses and potential minuses of this proposal and, like my other colleagues here, I very much appreciate your taking much more time than you expected to take in presenting your views.

Mr. KOLBE. If I might just say, Mr. Chairman, I certainly hope the sampling you heard here does not represent the numbers correctly, the 3 to 1.

Mr. LEVIN. The diversity.

Mr. BRUCE. Or the alphabet, K, K, K, and B. [Laughter.]

Chairman GIBBONS. All right. Mr. Schulze.

Mr. SCHULZE. Mr. Chairman, I would like to thank our colleagues. I not only heard most of it, but read all of their testimony. It was well thought-out, well-presented and the committee very much appreciates the sincerity and the depth of your views and your taking time to give us your opinions.

Thank you.

Chairman GIBBONS. I want to express the same simple views. Let me see if I can summarize what you said. All four of you, with the possible exception of Mr. Kolter, said it is a good idea, in the long run, but we want to be very careful about how it is negotiated, we want to make sure that we level the playing field as far as environment is concerned, workers rights are concerned, and things like that are concerned. You were at least skeptical about our ability to get it done in the timeframe.

Now, we are going to face the extension of negotiating authority here in the next few months. If 2 years is not enough, how long would you think we ought to take to negotiate this?

Ms. Kaptur. Mr. Chairman, could I ask when would the 2 years start?

Chairman GIBBONS. The 2 years will start on June 1 of this year and will go to June 1, 1993. As a practical matter, they would have to bring a proposed agreement back to us by March 1, 1993, in order to meet the schedule of consideration that we have.

Ms. Kaptur. I guess my problem with that, Mr. Chairman, if I could just speak for myself very briefly, is that I feel as though if I were to vote for the fast track, it means I would leave the Trade Ambassador that I heard this morning with the responsibility of negotiating an agreement which, from the way I heard it, she did not intend to deal with any of the issues that I presented in my testimony, and I guess my problem with the fast track is the authority is taken away from us to amend.

I have no problem with 2 years, but I fear, from what I heard this morning, that the provisions I am concerned about will not end up in that final agreement, so 1 year I think would be plenty of time. I just think that, at the end of it, we would not have any of these provisions in it.

Chairman GIBBONS. Well, I do not know if we would have them all, but we would certainly have a lot of them, I hope, because I think it is going to be necessary to have those in the agreement, in order to get it ratified here in the Congress. It still has to go through the ratification procedure.

Mr. KOLBE. Mr. Chairman, if I could respond, in my view, if we go the fast-track route, which I of course do favor, 2 years is more than adequate time. I believe it will take much less time than that. If we did not go the fast-track route, 200 years would not be enough time to negotiate. It could not be done.

Mr. MCGRATH. Mr. Chairman.

Chairman GIBBONS. Mr. McGrath.

Mr. MCGRATH. I, too, want to compliment my colleagues for their testimony. Obviously, we come from different areas, with different concerns and, therefore, have different perspectives on some of these things.

I am just interested in knowing from my colleagues what would the circumstances of the free trade agreement be that a company in the United States does not already have today? If I can glean from at least Joe and Marcy and Sandy, they are worried about some export of some jobs down to Mexico or these companies themselves moving down to Mexico from the automobile industry. Obviously, if I lived in that area, I would feel the same way. But this is already happening, without the free trade agreement. What is the free trade agreement going to do that is going to prevent that? It is already happening.

It seems to me it can only make a situation that you consider bad better. Am I correct or am I incorrect?

Ms. KAPTUR. If I might respond, the majority of United States investment in Mexico currently is through the maquiladora program, and most of the transshipment that comes back is through those intermediate goods. From what I have seen in Mexico, I do not consider that effort to be raising the standard of living of the Mexican people. It is making certain companies have the ability to lower their cost of doing business by locating down there, but I do not view the current situation as unexploitative. I think it is, and I guess those standards are being set by the Mexican Government. The maquiladora program is a Mexico program, but it is not a United States program.

I think with this type of trading, that we could take steps in order to improve the standard of living on both sides of the border, so there would be a North American standard for betterment, so I see it as a very different approach than what is currently happening.

Mr. KOLTER. Mr. Chairman, if I may respond also, you are right, sir, I do not approve of a free trade deal here, because I see nothing that is considered fair. We heard this morning a number of questions that members of your committee had asked of the Trade Ambassador, and she either did not know the answer or did not want

to tell the truth or was not totally prepared for the interrogation she received, so that tells me that something is wrong.

I really cannot see what the hurry is here to go with a free trade policy at this time.

Mr. KOLBE. If I might get more oar in on this, Mr. McGrath, I think your point is well taken. Just to give you one example, the automotive industry has an average tariff of imports coming into the United States of 2 percent from Mexico. A free trade agreement that eliminates that 2 percent is not going to make one whit of difference, in terms of whether or not a plant decides to move to Mexico or not.

I would point out that the maquila industry, the maquila manufacturing system, has a wage scale in the manufacturing sector in Mexico that is almost double that of nonmaquilas. So, the maquiladora program is clearly much better than conditions in the interior of Mexico. But the working conditions are not close to ours and we know that. You cannot have it both ways. You cannot wring your hands and say I feel terrible about the poor Mexicans down there who are going to be exploited, but, by the way, I want to make sure they do not get any jobs and they go back to their villages and they live in poverty for the rest of their lives. You cannot have it both ways.

Mr. LEVIN. Would the gentleman yield, just for 30 seconds?

Mr. MCGRATH. Surely. Go ahead.

Mr. LEVIN. Just so we dig into this deeply, I think we want to, in terms of potential job loss. I am not sure there is a clear answer or even a muddy one yet, and I think we deserve to look into this and get some straight answers.

For example, it was discussed this morning in terms of tariffs that there is now a 25-percent tariff on light trucks, so you do need to examine what would be the impact of elimination of that tariff, in terms of plant location.

Also, a free trade agreement would change the overall economic climate between the two countries. I am not trying to conjure up any scare stories here. On the other hand, I do think that those who are the clear proponents need to help those who are asking the questions to find the answers. If you do not, you are going to leave a lot of people without answers to key questions relating to the manufacturing process of this country, and what is true for autos is true for electronics, is true for parts of the glass industry, and is true for parts of the electronics industry.

Thank you, Mr. Chairman.

Chairman GIBBONS. On that note, we had all better go vote, and when we get back we will take up the next panel.

[Recess.]

Chairman GIBBONS. The subcommittee will come to order.

Mr. Schulze.

Mr. SCHULZE. Thank you, Mr. Chairman.

I just want to welcome Dexter Baker, who is the CEO of Air Products, a very prominent firm in Lehigh Valley, a neighboring congressional district of mine. I have known Mr. Baker for quite some time. He is a leader of the community, both the social life and business life of the area, has been a socially conscious CEO,

and has been in the forefront of so many good deeds that it would be difficult for me to enumerate them.

I am proud to have him as an almost constituent, as a friend, and also to have him before the committee. Thank you, Dexter, for coming.

Mr. BAKER Thank you, Mr. Schulze.

Chairman GIBBONS. We will let you proceed first, Mr. Baker.

STATEMENT OF DEXTER BAKER, CHIEF EXECUTIVE OFFICER, AIR PRODUCTS & CHEMICALS, INC., ON BEHALF OF THE CHEMICAL MANUFACTURERS ASSOCIATION

Mr. BAKER. Thank you, Mr. Chairman.

As Mr. Schulze mentioned, I am the chairman and chief executive officer of Air Products & Chemicals, located in Allentown, PA, but I am appearing today on behalf of the Chemical Manufacturers Association, CMA, as we call it, which is a nonprofit trade association, whose member companies represent about 90 percent of the productive capacity of chemical manufacture in this country.

I also serve as a chemical industry trade adviser, representing an informal coalition of the chemical manufacturing associations in this country. We do appreciate the opportunity to appear before the subcommittee today to discuss the industry's interests in and support of a United States-Mexico Free Trade Agreement.

The U.S. chemical industry is a $240 billion industry. Approximately one-third of our sales are to overseas customers, international customers. The U.S. exports of chemical products exceeds $40 billion annually, and we generate a favorable trade balance of $16 billion on those $40 billion of sales.

In addition, we provide invisible contributions to the balance of payments of about $8 billion that are derived from royalty income and dividend cash flows back to the United States from our overseas investments. Forty percent of the chemical industry's exports are to our affiliated companies abroad. Therefore, two of the most important issues facing our industry today are the right of market access for our products and our investments and the protection of our intellectual property that is inherent in all of our products.

Our industry invests more than $80 billion a year in research and development, so the protection of intellectual property is a very important criteria. These are the reasons why we have been an advocate of the Canadian Free Trade Agreement and we have been a strong supporter of the Uruguay round, and why we do endorse the concept of a free trade agreement with Mexico.

We do urge this committee to support the fast-track authority for the administration. We believe that our negotiators will bring before this committee for final approval a balanced and fair FTA agreement with Mexico, which will be a benefit to the economic growth of the United States, as well as Mexico.

How will a free trade agreement benefit the U.S. chemical industry? Mexico is one of our industry's largest trading partners, slightly behind that of Japan and Canada and the EC. The United States-Canadian Free Trade Agreement started the process of removing trade barriers between our two countries. A successful

United States-Mexican Free Trade Agreement will do likewise with Mexico.

If the involvement of Canada is included in the United States-Mexican negotiations, then the American chemical industry will be able to serve a whole market of 360 million people, with an annual gross national product of more than $6 trillion. In short, this will be one of the largest, most dynamic markets of the world.

Our industry recognizes that market access is not defined exclusively by tariff rates. Market access means removing all impediments to trade, including dissimilar rules of origin, different technical standards, and the prohibition on investments. It means allowing the competitors to compete on an equal footing basis.

The Mexican Government has recently modified its laws governing foreign investment, particularly investment in the chemical industry, and it is a positive step in the right direction. At one time, the entire petrochemical sector was reserved exclusively for the Mexican Government. Now, outsiders can participate at least in some additional production categories, but there are still 20 primary petrochemical products that are off limits to foreign investments. With additional liberalization, investment restrictions in Mexico will hopefully hasten under a free trade agreement.

The chemical industry also believes that the cornerstone of a free-trade agreement is a workable dispute settlement process. The system adopted in the United States and the Canada FTA I think is a good model and should serve as a basis for the upcoming negotiations.

I know, and I heard this morning, that there are concerns expressed that some industries will use the Mexico FTA as a vehicle to shift production to Mexico, where environmental laws are new and regulations are not yet fully implemented.

Let me say categorically that the member companies of the Chemical Manufacturers Association build their offshore facilities to meet the most stringent applicable environmental standards that we face in the United States. This practice is consistent with CMA's Responsible Care Program to which CMA member companies emphasize responsible health, safety, and environmental practices. Adherence to these principles of Responsible Care is a requirement for membership in the CMA, and as I said early on, our association represents more than 90 percent of the basic manufacturing of chemicals in the United States.

However, we believe it is essential that the issues of economic and environmental impact be fully considered while we are negotiating this agreement. We believe the United States will have parallel avenues through which to influence Mexico to properly enforce its environmental laws.

Mexico has already passed strong environmental legislation. The United States needs to provide its encouragement for Mexico to properly enforce these laws. Furthermore, if necessary, the United States should offer technical assistance to that end. We believe that the FTA will spur, rather than hinder, Mexico's compliance with strong environmental standards, and I have spoken personally with Secretary Hami Serapucha and with President Salinas, and they would like to have American companies come down to Mexico

and help them with the technology and investment needed to bring their environmental standards up to those of the United States.

Our industry, perhaps more than others, places great reliance on intellectual property protection laws. We are unable to compete in the overseas markets, if our products and our technologies are pirated or used without fair compensation.

Mexico is currently strengthening its intellectual property laws. To ensure the continued strength of these laws and their proper enforcement, the FTA which will be negotiated must include language which will address this matter.

In the United States-Canadian free trade negotiations, intellectual property protection was not directly addressed, but it was, instead, deferred to the Uruguay round negotiations. With those negotiations stalled, numerous intellectual property issues remain unresolved with Canada.

The United States should use the negotiation opportunity with Mexico to go beyond the trade-related intellectual property efforts with the GATT.

Mr. Chairman, we have prepared a formal testimony concerning the chemical manufacturers position on this matter and we would like to submit that to you for the record.

Chairman GIBBONS. Without objection, it will be included in the record.

Mr. BAKER. That completes my testimony. Thank you.

[The prepared statement follows:]

CHEMICAL MANUFACTURERS ASSOCIATION

TESTIMONY ON A MEXICO-U.S. FREE TRADE AGREEMENT

I. INTRODUCTION

The Chemical Manufacturers Association (CMA) is pleased to have this opportunity to present its views on the Mexico-United States Free Trade Agreement (FTA). CMA not only supports negotiation of such an agreement with Mexico, but believes the addition of Canada to the negotiation will help lay the foundation for a true North American Free Trade Agreement (NAFTA).

CMA is a non-profit trade association whose member companies represent 90 percent of the productive capacity for basic industrial chemicals in the United States. The chemical industry is a major contributor to the U.S. economy. In 1990, the industry's trade surplus totaled $16 billion.

CMA has actively participated in the negotiations on bilateral and multilateral trade agreements, including the U.S.-Canada FTA and the Uruguay Round of Multilateral Trade Negotiations. CMA and its member companies seek to secure the benefits of trade liberalization worldwide, through governmental commitments to assure open markets. We have worked with the trade associations representing the European, Japanese and Canadian chemical manufacturers, to forge consensus views on trade policies that affect the economic health of the global chemical industry, and to assure our customers the highest quality product at the lowest cost.

CMA's objectives in both the Uruguay Round and the U.S.-Canada FTA, and our interests in the Mexico-U.S. FTA, are complementary. The form of the agreement -- bilateral, multilateral or regional -- should not mask the important benefits to be derived from open trade. In fact, CMA believes that the Mexico-U.S. negotiations offer an excellent opportunity to extend the benefits of free trade on a regional, North American basis.

Mexico is our third-largest trading partner, responsible for 6 percent of the chemical industry's $37 billion in 1989 exports. In fact, in the past four years, U.S. exports to Mexico have doubled. Meanwhile, Canada received over $4.2 billion in U.S. chemical exports in 1989, just behind our largest trading partner, Japan. Combined, the U.S., Mexican and Canadian markets have 360 million consumers and an annual output of $6 trillion. Free and open trade by producers in all three countries should have significant economic benefits.

The U.S. chemical industry's general objectives in a Free Trade Agreement are to assure market access for U.S. chemical producers in Mexico, secure a right to open investment in Mexico, and to promote a harmonization of U.S. and Mexican trade remedy laws. The specific comments and recommendations which follow constitute a comprehensive guide to the FTA issues of particular concern to the chemical industry.

II. SPECIFIC ISSUES

A. Overall Objectives

CMA is particularly encouraged by recent developments in Mexico, including Mexico's express desire to pursue a bilateral trade agreement. Former President de la Madrid instituted important economic stabilization programs. President Salinas has continued the reforms, liberalizing laws governing technology transfers, investments, and imports. Mexico's participation in the General Agreement on Tariffs and Trade, and its commitment to bind all tariffs at rates far below other developing countries, are indicative of the commitment being made to internationalization of the country's trade policies.

A Mexican-U.S. FTA should be able to address, at least in part, some current practices which distort the U.S. chemical industry's trade with Mexico. Hopefully, the FTA will demonstrate Mexico's commitment

to rely on market-based pricing, and to eliminate some existing dual-pricing practices. In the petrochemical area, Mexico has already made considerable efforts to liberalize international investment opportunities. At this point, production of 86 chemicals require some form of governmental participation; only 20 are completely reserved to the Mexican government. Additional opening of petrochemical investments to foreigners should be a goal of the FTA.

In addition, the FTA provides an opportunity to harmonize the trade remedy laws now in effect in Mexico and the United States. At a minimum, the laws of the respective countries should provide for national treatment in the determination of trade remedies, and should guarantee due process for all parties. A bi-national dispute settlement mechanism, perhaps modeled on the mechanism in the U.S.-Canada FTA, should be considered for the Mexican-U.S. Agreement.

B. Market Access

The FTA should provide each country with improved and equivalent access to the other country's markets, including petrochemical markets. This means market access without unreasonable barriers, achieved through the progressive elimination of both tariff and non-tariff measures. All provisions of the FTA should be consistent with GATT principles on national treatment and non-discriminatory impact.

The FTA should reduce and eliminate tariffs in stages over a five to ten year period. Some tariffs could be eliminated immediately through an acceleration process if all the domestic producers of a product agree. A Mexican-U.S. FTA should spell out the procedural requirements of an accelerated tariff reduction system, avoiding the anamolous situation now present in the U.S.-Canada FTA. The process now used under the Canadian agreement enables any producer, regardless of how small an interest, to block a proposed acceleration. A producer should at least be competitive in his own market before being able to block acceleration of a tariff reduction.

As noted earlier, Mexico has already lowered and bound its tariff rates. In some cases, Mexico's effective rates are lower than the bound rate. Any agreement to reduce and eliminate tariffs should use the applied rates as the starting point of negotiation.

Several non-tariff measures should also be addressed in the FTA with Mexico. In particular, a rule of origin that ensures that a majority of the benefits of trade liberalization accrue to nationals of the United States and Mexico should be developed.

The FTA should require an imported good to be substantially transformed before it is considered a good of the importing country. The difficulties now being experienced in application of the U.S.-Canada Rule of Origin should be taken into account as a similar provision is negotiated with Mexico.

Domestic technical product standards may hinder free trade by unfairly excluding the products of foreign countries. To ensure that technical standards do not become a significant barrier to trade, a mechanism should be provided to monitor and harmonize U.S. and Mexican technical standards.

C. Investment

CMA's overriding concern in the investments area is to recognize the rights of establishment, national treatment, and open investment for foreign direct investment.

Mexico's considerable progress on foreign investment requirements has certainly led to increased opportunities for U.S. investors. However, Mexico's continued restrictions on investment in 86 chemical product areas undermines that progress, and suggests that the FTA negotiations should focus on the trade impact of policies which reserve portions of industries to the national government.

D. Protection of Intellectual Property

Although Mexico has improved its laws protecting intellectual property, the protection is neither adequate nor reliable. For example, Mexican law does not extend patent protection to certain products, such as fine chemicals and pharmaceuticals. Adequate intellectual property protection, including trade secret protection, is essential for vigorous future U.S. investment in Mexico.

Perhaps most importantly, adequate intellectual property protection will help promote technology transfer to Mexico. These transfers can be particularly important to the further economic and industrial development of Mexico.

CMA believes that notwithstanding Mexico's commitment to reform its intellectual property laws, the FTA should address the intellectual property issues critical to U.S. and Mexican trade interests.

E. Dispute Resolution

The hallmark of an effective trade agreement is a workable dispute settlement process. The mechanism for dispute resolution must be timely, transparent, and, most importantly, binding. Dispute resolution procedures cannot be subject to undue political influence or lack effective means of enforcement. Also, the entire dispute resolution mechanism will be undermined if parties to the dispute refuse to abide by the results of the dispute settlement.

The Mexico-U.S. FTA should provide for a dispute resolution system which renders a decision in a short enough period of time so as to avoid sizeable financial injury or cost to either party to the dispute. The national laws of both countries should require the parties to a free trade dispute to comply with the decision in a disputed case. A forum should also be provided to review anti-dumping and countervailing duty cases for consistency with the FTA, similar to the system in effect under the U.S.-Canada Free Trade Agreement. The dispute resolution should include an opportunity for input by the affected industry. Nationally recognized experts, including industry officials, should serve as the pool from which the dispute panels are drawn.

The dispute mechanism should also include some safeguards to assure compliance. Failure to comply with a decision in a disputed case, for example, should be grounds for reimposition of any import duties.

F. Relationship to Other Bilateral Issues

Considerable attention has been focused recently on the extent to which the Mexican-U.S. FTA must be conditioned by progress in other, non-trade areas. These issues include differences in health, safety and environmental laws in the United States and Mexico. Certain U.S. business interests could be adversely affected if environmental, health and safety standards in Mexico were so less stringent as to impose a competitive disadvantage on U.S. producers.

Some concern has been expressed that U.S. industries may use the Mexico-U.S. FTA to shift production facilities to Mexico, to take advantage of lax enforcement of environmental standards. A number of points must be mentioned in response to these concerns. First, Mexico has already passed strong environmental legislation. The U.S. needs to encourage Mexico to properly enforce those laws, and to provide technical assistance as necessary.

Second, CMA member companies build their foreign facilities to meet the most stringent applicable environmental standards. The chemical industry will not be seeking competitive advantage in the regulatory differences between Mexico and the United States. Finally, in a capital intensive industry such as ours, it is unlikely that U.S. jobs will simply move to Mexico. Labor costs are not the major factor affecting chemical production; production will not shift merely on the basis of labor cost savings.

As a general rule, the FTA negotiations should not be burdened by discussion on wholly non-trade subjects. However, there is clearly room for parallel initiatives in areas such as environmental

protection, and protection of health and safety, where those objectives can be advanced in tandem through the negotiation process. An increased presence of U.S. companies in Mexico, encouraged by a FTA, will also bring some real improvements in health, safety and environmental conditions in Mexico.

CMA is in the process of considering how best to address the complex inter-relationship between trade and the environment. The Association is certain that a commitment to market-based principles, expressed through an FTA, will result not only in higher standards of living in both Mexico and the U.S., but also greater protection of the natural resources of both countries. CMA looks forward to participating in further discussions on how best to address environmental, health and safety considerations in our bilateral and multilateral trading arrangements.

III. CONCLUSION

CMA supports a Mexico-U.S. Free Trade Agreement. A FTA will advance the economic interests of the United States, and with progress in appropriate areas, will benefit the U.S. chemical industry. Specific attention should be paid in the negotiations to obtaining a commitment to end trade-distorting practices, assure access to the Mexican product and investment market, and provide a mechanism for resolving disputes between the two countries. The negotiations hold great promise for both the U.S. and Mexico, particularly now that the outcome of the GATT negotiations remains in doubt. The FTA should lay the foundation for U.S. international trade policy into the next century; CMA hopes to be a part of the continuing process toward conclusion of an agreement.

Chairman GIBBONS. Thank you very much, Mr. Baker. We remember very favorably your participation in our Ways and Means retreat last year.

Mr. BAKER. Yes, that was a very good discussion on the Uruguay round.

Chairman GIBBONS. Mr. Bates.

STATEMENT OF CHRISTOPHER M. BATES, DIRECTOR, POLICY ANALYSIS, MOTOR & EQUIPMENT MANUFACTURERS ASSOCIATION

Mr. BATES. Thank you. Good afternoon.

The Motor & Equipment Manufacturers Association welcomes the opportunity to present its views to you today regarding the key issues and the likely impact of a proposed United States-Mexico North American Free Trade Agreement with respect to the motor vehicle components industry.

Since 1986, Mexico has undertaken a series of constructive reforms of its automotive trade policies which have opened the door for a significant expansion of United States parts exports. These changes are welcome developments, but their durability and positive impact on our industry, frankly, have been quite exaggerated. Mexico's automotive sector remains highly regulated and access for both United States parts exporters and investors in Mexico still is quite limited.

MEMA has just completed a rather extensive survey of our membership concerning attitudes and views about the prospects of a free-trade agreement and the impact it would have on our industry. The results indicate that suppliers in this industry favor negotiation of a United States-Mexico North American agreement, but on the condition that the United States Government agrees to certain high-priority objectives that should be part of the central negotiation.

Specifically, we would support a congressional grant of fast-track authority in return for a clear administration commitment to Congress before June 1, that the following U.S. automotive supplier industry priorities will be vigorously pursued:

First and foremost would be the establishment of a strong North American rule of origin, to ensure that automotive products receiving tariff preferences under the agreement are wholly or substantially manufactured in the United States, Mexico, and Canada. Based on our survey, at least a 60-percent origin rule would be necessary to advance U.S. industry's goals.

Second, removal of remaining Mexican restrictions on foreign investment in the auto parts sector. Some MEMA members have reported that liberalization of this nature would encourage them to undertake initial investments in Mexico or to expand and build upon the ones which they have there now.

However, interestingly enough, and I think a particular concern to a number of members of this subcommittee, our survey also shows that there would not be a wholesale shift of United States production capacity to Mexico. I think our industry is looking at the overall evolution of the Mexican market on its own merits as a potential market for United States products.

Third, it is critical to have reciprocal elimination of both Mexican and United States tariffs on automotive products. A 5- to 10-year transition period seems to be what would be most favored by our industry.

Fourth, a phaseout of Mexico's local content requirements which remain stringent, despite some recent changes.

And fifth, the phaseout of Mexico's trade balancing requirements which unfairly link increased automotive imports with greater investment in and exports from Mexico. Unless these requirements are substantially liberalized or removed, Mexico's trade surplus with the United States will become institutionalized and will grow.

Some other negotiating priorities. Two other issues that I think are of key concern to our industry: One is the negotiation of special safeguard procedures, perhaps modeled on the United States-Canada Free Trade Agreement, to make sure that any import surges would not harm the United States producers and their workers.

Second, improve protection of intellectual property. I think there is a lot of support for the reforms which have been undertaken in the past few years. We would like to see the new IPR reform legislation, which I guess will be introduced shortly or has been already, implemented just as quickly as possible.

We are continuing to consult with the administration about the specific negotiating objectives. The rule of origin issue, however, is most contentious and we hope that this committee will support us strongly in ensuring that it becomes a focal point of the FTA negotiations.

As part of the free trade negotiations, the Mexican, United States, and Canadian governments have an opportunity to adopt an automotive rule of origin which ensures that automotive producers with substantial manufacturing commitments in North America are the primary beneficiaries of our mutual tariff reductions.

While various types of origin rules have been considered, we continue to feel that the arrangement negotiated in the United States-Canada Agreement—that is a combination of a value content requirement with a change in tariff heading or subheading—is the most workable and effective approach toward achieving this objective.

We need, I think, a unifying rule for all of North America, not a whole lot of departures in different directions.

Let me end by talking about what we see as some of the benefits of a free trade agreement. Right now, United States motor vehicle parts manufacturers have a major trade and investment stake in Mexico. Trade in automotive parts and accessories last year accounted for an estimated $9.1 billion, or about 16 percent of total United States-Mexico trade, according to some recent Commerce Department data.

United States automotive suppliers have invested heavily in Mexico's national auto parts and maquiladora industries, accounting for about 73 percent of total foreign investment in those sectors last year. On balance, we believe that a properly structured United States-Mexico agreement would result in net benefits for United States manufacturers of motor vehicle parts, accessories, and related products.

Currently, we serve Mexico through a combination of exports and local production. A substantial share of United States imports from Mexico is derived from maquiladora and other coproduction arrangements in which United States companies participate. United States market access in Mexico is limited by government restrictions on imports, on the sale of maquiladora output in Mexico, and on foreign investment in Mexican auto parts enterprises.

Barriers, in contrast, to greater Mexican participation in our automotive market are largely commercial in nature, rather than Government imposed. Nominal United States tariff rates are low by both world and Mexican standards. Effective rates on most automotive components are even lower, due to the so-called 9802 provision, the generalized system of preferences and foreign-trade zone programs.

Right now, these programs provide, in effect, a unilateral tariff concession that benefits Mexico. We see the free trade agreement as offering an opportunity to make this really a reciprocal arrangement and a much healthier relationship over the longer term.

I would like to conclude by saying that we hope that this subcommittee will continue to play a very active oversight role in the prenegotiation period, as well as thereafter, to ensure that the negotiating priorities and objectives are well-defined, and that the administration is committed to seeing that this agreement serves the interests of key U.S. industries, including our own.

Thank you very much.

[The prepared statement follows:]

MOTOR & EQUIPMENT MANUFACTURERS ASSOCIATION

Prepared Statement on Proposed U.S.-Mexico Free Trade Agreement

of

Christopher M. Bates, Director, Policy Analysis

**Before the House Subcommittee on Trade,
Committee on Ways and Means**

February 20, 1991

The Motor & Equipment Manufacturers Association (MEMA) welcomes the opportunity to present its views to the House Subcommittee on Trade regarding the key issues and likely impact of the proposed U.S.-Mexico North American Free Trade Agreement (NAFTA) with respect to the motor vehicle components industry.

Founded in 1904, MEMA is the only association which exclusively represents U.S. manufacturers of motor vehicle parts, accessories, and allied products. MEMA members supply both original equipment components and systems to car and truck manufacturers and replacement parts to the aftermarket sales and service industry.

Last summer I testified before this Subcommittee concerning: 1) the evolution of Mexican auto sector policy; 2) the potential impact on U.S. automotive suppliers of Mexico's new auto industry decrees; and 3) likely U.S. and Mexican negotiating priorities for an FTA. At that time, I also highlighted the need for close consultations between U.S. industry and government as the risks and opportunities of a NAFTA for U.S. producers are explored.

Today's hearing focuses on whether it is in the interests of the U.S. economy to conduct these NAFTA negotiations under "fast track" procedures, and on the identification of specific U.S. negotiating objectives. In addition, the Subcommittee is interested in the likely impact of the proposed NAFTA on key U.S. industries, including the motor vehicle parts industry.

Appropriateness of "Fast-Track" Procedures for U.S.-Mexico NAFTA

Since 1986 Mexico has undertaken a series of constructive reforms of its automotive trade policies which have opened the door for a significant expansion of U.S. parts exports. These changes are welcomed developments, but their durability and positive impact on our industry have been exaggerated. Mexico's automotive sector remains highly regulated and access for both U.S. parts exporters and investors is still quite restricted.

MEMA has just completed a major survey of its members attitudes regarding the proposed U.S.-Mexico NAFTA and its likely impact on their U.S. operations and overseas investment strategies.

The results of this confidential survey indicate that U.S. motor vehicle parts suppliers favor negotiation of a U.S.-Mexico NAFTA, on the condition that the U.S. Government agrees to give high priority to achieving key U.S. industry objectives.

Specifically, MEMA would support a congressional grant of "fast-track" authority in return for a clear Administration commitment to Congress, before June 1, that the following U.S. automotive supplier industry priorities will be vigorously pursued:

-- **Establishment of a strong North American rule of origin** to ensure that automotive products receiving NAFTA tariff preferences are wholly or substantially manufactured in the United States, Mexico, and Canada. **Based on our survey, at least a 60 percent origin rule is necessary to advance U.S. industry's interests.**

-- **Removal of remaining Mexican restrictions on foreign investment in the auto parts sector.** With certain exceptions, Mexico still limits foreign investment in its national auto parts industry to a 40 percent share. This policy restricts U.S. access to the Mexican market through local production.

-- **Reciprocal elimination of Mexican and U.S. tariffs on automotive products over a 5-to-10 year period.** There is a strong consensus that Mexico and the United States should remove all tariffs on roughly the same timetable.

-- **A phase-out of Mexico's local content requirements,** which continue to limit the ability of U.S. exporters and of U.S.-majority owned firms in Mexico to compete with Mexican majority-owned suppliers.

-- **A phase-out of Mexico's trade-balancing requirements,** which unfairly link increased automotive imports with greater investment in and exports from Mexico. Unless these requirements are substantially liberalized, Mexico's automotive trade surplus with the United States will become institutionalized and grow.

We are continuing to consult with Administration officials about these specific negotiating objectives. The rule of origin issue, as during the U.S.-Canada FTA negotiations, will be particularly contentious given non-North American producers' support for a weak NAFTA origin rule.

It therefore is essential that the Administration work with MEMA and other interested parties representing manufacturers to develop a firm negotiating stance on this issue prior to the initiation of any formal negotiations with Mexico or Canada. MEMA asks for this Subcommittee's support in emphasizing the importance of this matter to the Administration.

Priority U.S. Negotiating Objectives

Strong NAFTA Rule of Origin

As this Subcommittee is aware, the Canadian Government continues to resist a U.S. proposal to amend the U.S.-Canada FTA to require a 60 percent, rather than only 50 percent, rule of origin requirement for automotive products. This proposal, supported by a broad cross-section of the U.S. and Canadian auto industry, has been made repeatedly since 1988 under a specific congressional mandate.

As part of the NAFTA negotiations, the U.S., Mexican, and Canadian Governments have an opportunity to adopt an automotive rule of origin which ensures that automotive producers with substantial manufacturing commitments in North America are the beneficiaries of their countries' mutual tariff reductions. While various types of origin rules have been considered, MEMA continues to believe that a strong value-content rule, combined with a change in tariff heading or subheading, is the most effective and workable approach toward achieving this objective.

The rapid growth of the Mexican maquiladora program and of U.S. 807.00 (now HTS 9802.00.80) imports is a matter of concern to some producers and workers in our industry. This concern can be minimized by adopting a NAFTA rule of origin which encourages continued substantial use of North American, and particularly U.S., components in products assembled in Mexico under this program.

Mexican Foreign-Investment Restrictions

Despite its general efforts to liberalize foreign investment rules, Mexico continues to limit foreign investment in its national auto parts industry to a 40 percent equity share. While the new rules allow foreign parts manufacturers to invest as majority owners through a 20-year trust arrangement, this restricted approach is not a viable one for many U.S. automotive suppliers.

We also understand that Mexico's new decree only allows national parts suppliers with majority Mexican ownership to serve both the original equipment (sales to vehicle producers) and the aftermarket (replacement sales) segments of the local market. If this policy is in fact being applied, it limits genuine local market access for U.S. majority-owned ventures and reinforces the export-orientation of Mexico's auto decree.

MEMA members report that removal of Mexico's restrictions on foreign investment, including those now applied to maquiladora plants, would encourage <u>some</u> to make initial or expanded investments in Mexico. Our survey also suggests that elimination of these restrictions would likely <u>not</u> lead to a massive or rapid shift in U.S. auto parts industry capacity to Mexico.

Reciprocity in U.S. and Mexican Tariff Reductions

Another key finding of MEMA's survey is that most U.S. suppliers believe the United States and Mexico should eliminate tariffs on roughly the same timetable under the proposed NAFTA. Few companies believe a transition period of less than five years is realistic. Virtually all believe a transition period of more than ten years would substantially limit the value of any NAFTA.

Removal of Mexican Local Content Requirements

Under its new auto decree, Mexico has modified its local content requirements in a way which suggests more open competition between local and foreign automotive suppliers in the future. As mentioned above, however, our close analysis of these changes suggests that Mexico is continuing to use local content rules to encourage all vehicle manufacturers in Mexico to buy more heavily from Mexican-controlled suppliers, and to facilitate their exports. The displacement effect on U.S. suppliers could in fact increase if the new local content requirements remain in place.

Given the high level of historical protection given to Mexican national suppliers, some of which are co-owned by U.S. companies, an abrupt removal of local content restrictions would not serve Mexican or U.S. economic interests. Nonetheless, U.S. original equipment suppliers' access to Mexico's local market will remain limited until current local content restrictions are removed. Ideally, these restrictions should be phased out over a 5-year period in a manner which does not discriminate between new and established investors.

Elimination of Mexican Trade-Balancing Requirements

New Mexican trade-balancing requirements are designed to ensure that Mexico achieves a net surplus in its automotive balance of payments, while allowing foreign-owned Mexican assemblers of cars and light trucks (GM, Ford, Chrysler, Nissan, Volkswagen) to rationalize their local production and market offerings through limited imports. As the ITC report notes, the overall impact of this new trade-balancing approach on U.S. trade and investment depends heavily on the strategy of vehicle assemblers in Mexico.

Mexico's new trade-balancing requirements are likely to increasingly distort U.S.-Mexico trade and investment flows given the growing volume of bilateral vehicle and parts trade and the credit given in the trade-balancing formula for major new automotive assembler investments in Mexico. This is a matter of major MEMA concern which needs to be addressed in the NAFTA negotiations.

Accordingly, MEMA urges the Administration and Congress to examine these trade-balancing rules carefully with the objective of establishing a reasonable time frame for their removal under the proposed NAFTA. If these rules are not phased out, producers in Mexico will continue to have an incentive to aim a disproportionate share of their production at the U.S. market. Significant job losses and plant consolidations could result in the United States.

Other Negotiating Priorities

Import Safeguard Provisions

Another important issue which affects automotive as well as non-automotive industries is the negotiation of an effective safeguard provision to deal with major import surges which could harm U.S. producers and workers. MEMA strongly endorses efforts to develop special safeguard provisions, perhaps along the lines of those in the U.S.-Canada FTA, to protect U.S. producers and their employees from any future injurious surge in imports from Mexico.

Improved Protection of Intellectual Property

Mexico has taken steps to improve protection of intellectual property in recent years, including making a commitment to introduce comprehensive legislation to strengthen standards of protection and enforcement. New, more liberal technology transfer regulations also were put in effect in 1989. During the NAFTA negotiations, the U.S. Government should press for prompt passage and implementation of Mexico's proposed IPR legislation.

U.S.-Canadian Issues to be Addressed in the Proposed NAFTA

The principal U.S.-Canada issue which needs to be addressed is the adoption of a strong North American rule of origin for automotive products. Ideally, this would be undertaken through agreement on a trilateral NAFTA rule of origin standard involving the United States, Canada, and Mexico.

Anticipated Benefits of the Proposed NAFTA

U.S. motor vehicle parts manufacturers have a major trade and investment stake in Mexico. Trade in automotive parts and accessories accounted for an estimated $9.1 billion, or about 16% of total U.S.-Mexico trade in 1990 according to U.S. Department of Commerce data. U.S. automotive suppliers have invested

heavily in Mexico's national auto parts and maquiladora industries, accounting for about 73 percent of total foreign investment in these sectors in 1989 according to the just-released ITC report.

The U.S. deficit in automotive parts trade with Mexico exceeded $1 billion from 1986 through 1989. This deficit fell to an estimated $200 million last year due to a $1 billion increase in U.S. exports to Mexico and a weakening of U.S. vehicle sales and parts demand.
Because the U.S. and Mexican motor vehicle industries already are closely integrated, growth in U.S.-Mexico parts trade will likely slow significantly in 1991 due to the current North American industry downturn. Longer-term trends are more difficult to predict, particularly in light of uncertainties associated with implementation of Mexico's new auto industry decrees.

On balance, MEMA believes a <u>properly</u> <u>structured</u> U.S.-Mexico NAFTA would result in net benefits for U.S. manufacturers of motor vehicle parts, accessories, and allied products.

Currently, U.S. automotive suppliers serve Mexico through a combination of exports and local production. A substantial share of U.S. imports from Mexico is derived from maquiladora/9802.00.80 co-production arrangements in which U.S. companies participate. U.S. market access in Mexico is limited by government restrictions on imports, on the sale of maquiladora output in Mexico, and on foreign investment in Mexican auto parts enterprises.

Barriers to greater Mexican participation in the U.S. automotive market are largely commercial in nature rather than government-imposed. Nominal U.S. tariff rates are low by world and Mexican standards. Effective U.S. rates for automotive components are even lower due to the U.S. 9802.00.80 provision, the Generalized System of Preferences (GSP) program, and foreign-trade zones.

These U.S. programs now provide major <u>unilateral</u> tariff concessions to Mexican producers. Therefore, an important U.S. benefit from the proposed NAFTA would be to establish a new, more <u>reciprocal</u> relationship with Mexico in the automotive sector.

Mexican wage and total compensation levels are substantially below those in the United States, according to available data. However, several factors appear to partially offset this Mexican competitive cost advantage:

1) Underdeveloped social and economic infrastructure in Mexico, which raise costs and lower productivity; and

2) Lower quality and productivity levels, particularly outside of the maquiladora industry, due to restrictions on material sourcing and lower levels of factory automation and investment in process control.

Through the maquiladora program, Mexico now plays an important role in helping U.S. auto parts manufacturers rationalize their North American production to compete more effectively at home and abroad. The proposed NAFTA would encourage further rationalization, thereby allowing U.S. producers to preserve U.S. employment which otherwise might be placed at risk due to growing competition from low-wage producers in other regions of the world.

Concluding Remarks

The Motor & Equipment Manufacturers Association is working closely with the Administration as it defines specific U.S. negotiating objectives for the proposed NAFTA. MEMA believes these negotiations should go forward under the fast-track procedures, provided the Administration is willing to commit itself to the specific negotiating objectives outlined in our testimony.

MEMA urges members of this Subcommittee to continue to play an active oversight role in the pre-negotiations period through June, as well as thereafter, to ensure that U.S. negotiating objectives are well-defined and consistent with the economic interests of key U.S. industries, such as our own.

Chairman GIBBONS. Do you find that the private participation model that we now have in working out these agreements is satisfactory?

Mr. BAKER. Do you mean the private sector advisory?

Chairman GIBBONS. Yes, sir.

Mr. BAKER. I have been a very active member of that and have participated in the Uruguay round discussions, and I believe the USTR and the American advisory system is by far the best that exists of all of the trading nations.

Canada, as you know, had to emulate our system, in order to get their agreement approved. The Europeans are beginning to develop it, but they are well behind ours. I think the USTR is really responsive to the advice it gets from its ISAC members and from its various generic trade advisory committees.

I am on IMPAC, was the chairman of that committee, and I find particularly Ambassador Hills to be very solicitous of the private sector viewpoint. Of course, she recognizes that our reports are both to her, as well as to this committee and Congress, in general, so she has been sensitive to that.

Chairman GIBBONS. After all, we are negotiating really for the country's benefit and for your benefit. I keep saying it is absolutely necessary that we keep our Government in touch with the private sector.

Mr. BATES. I would share that view, Mr. Chairman. I am a member of ISAC 16, which deals with transportation equipment. I think the Commerce Department and USTR have really across the board tried to be responsive. I think some of the challenges frankly, deal with the give and take at the interagency level, where some of the agencies which have less of a vested interest in terms of working with U.S. industries, have divergent views which are maybe based on a more theoretical view of the world. But I think the interaction, too, between committees of Congress such as your own, and the administration, along with the private sector input has made for a very viable and effective process.

Mr. BAKER. The comparison with the European system, where the industrial employer has to go to his employer federation, who goes to the government, the government goes to EC, the EC goes to the negotiators—and we are all sitting there in Brussels talking to Carla Hills at breakfast, the turnaround time in our decisionmaking and our input is far superior to what exists in the EC today.

Chairman GIBBONS. Good, because we have two big political hurdles ahead of us. One is getting the fast track extended for this North American free trade area and for the Uruguay round, and, two, we have got a big hurdle in getting both of them approved at the end of the negotiations. Unless we have you on board at the takeoff and all the way along, you know, I think it is almost impossible to get them approved in the final analysis. That is why I keep stressing that.

Mr. BAKER. I think the private sector committees and the private sector generally were very supportive and active in helping get the message out on the benefits on the Canadian Free Trade Agreement, and we are prepared to play that same role on the Uruguay round and on the Mexican round, if they come to be.

Chairman GIBBONS. Mr. Bates, as I recall, your testimony was that the Canadian Free Trade Agreement model on a product of Canada would satisfy you as far as——

Mr. BATES. We have been concerned, as you may recall, that the 50-percent rule of origin requirement in that agreement was too low. We recommended and had worked out a process with the Congress to go for a 60-percent rule. A binational panel was set up which, in fact, recommended a 60-percent rule, and that was rebuffed by the Canadian Government, yet again, back in August. We continue to feel that that provides a positive incentive to manufacturing in North America, and we think, particularly given the concerns, some in our industry and some I think among the work force in our industry about Mexico, that a strong rule of origin is indicated perhaps even more so in that context.

What I am recommending is that the basic structure where you combine a value added concept with the change in tariff heading, is an understood approach and that we should not be too aggressive in trying to reinvent the wheel, or we are going to run into a lot more complexities and arguments which are counterproductive.

Chairman GIBBONS. Mr. Schulze.

Mr. SCHULZE. Thank you, Mr. Chairman.

Thank you, gentlemen.

Mr. Baker, I understand you have had some experience in the area I am going to question you about. I do not know if you were in the room this morning when I had a discussion with the Ambassador with regard to the parastatal companies, the state-owned companies in Mexico and their local "buy Mexico" provisions and some of the problems which that has caused, and I had asked her how she was going to negotiate that or tackle that. I did not get a totally satisfactory response, but I am told by my staff that you have either had some experience or some problems in this area, and perhaps you could enlighten the committee.

Mr. BAKER. Well, one difficulty that the chemical industry has had historically in Mexico is the reservation that certain sectors of the chemical industry had for exclusive investment by the Mexican Government or Mexican-owned nationals.

Recently, Mexico has liberalized somewhat their investment rules, opening up a number of the secondary sectors for investment by international investors, including the United States chemical industry. Not in every case, however, is it possible even yet to be a 100-percent investor. The rules in a number of areas require that you take a Mexican partner. That may be fine in those circumstances where a partner can bring an equivalency to the table, so that you have a full contribution and a full sharing of results. Where partners do not exist, then that represents a detriment to investment and a restriction to investment.

Furthermore, the Mexican chemical industry petrochemical sector has been almost an exclusive preserve of Pemex. It is written into the constitution, the petroleum industry, and they have interpreted that to include the petrochemical sector, should be the exclusive preserve of Pemex.

We would find that situation to be relatively intolerable going forward, because not only has Pemex integrated downstream toward secondary petrochemical products, but they would be the

exclusive supplier of the raw materials, so it would place the international investor at a disadvantage, in having to obtain its raw materials from the very same company that it is competing with in downstream markets, and, of course, it does open up lots of mischief for how products are priced to your downstream subsidiaries.

This is a problem that would have to be addressed in the free-trade negotiations. Mexico has under certain circumstances chosen to modify their constitutional rules, and so we would be hopeful that the Mexican Government would believe that it is in their own interests to open up the petrochemical sector.

Our surveys indicate that the capital investment needed in Mexico just to meet the internal needs of the Mexican population will exceed more than $9 billion over the next 10 years. That is a sum of money we do not think that the Mexican Government or Pemex has available to meet their own internal requirements, much less put capacity in place to export to third-party countries. So, they need our technology, they need our investment, and we are hopeful that the free-trade negotiations will provide a mechanism by which that can come about.

Mr. SCHULZE. I hope you will input that into the FTA negotiations, as well as those of us who believe we have got to open that up.

Mr. BAKER. That has been a key issue of the impact, and we are advising Ambassador Hills very much on that point.

Mr. SCHULZE. Great. I also know that you have been concerned about inequities in our tax structure as it relates to international trade. As you know, it is an area in which I also have had an long-standing interest and I would like to have your thoughts on a broad-based order or adjustable uniform business tax which would be designed to either level the playing field or actually to encourage U.S. exports. What I would favor would not necessarily be an add-on, but a replacement for the current complex corporate income tax, so that we could sort of kill two or three birds at the same time. I wonder if you have any thoughts on that.

Mr. BAKER. Well, I am familiar with the proposal regarding that and I think it does have some merit. We do not only compete on the basis of our technology or the efficiency of our investment or the productivity of our labor. We do, in part, compete on the various tax laws that do influence the competitiveness of our products in the marketplace.

Clearly, the U.S. tax system, when it comes to exports, does put American manufacturers at some disadvantage. Most of our trading partners have a value-added system, where they deduct the cost of government and the cost of social services at the border when they export their products into the third market.

The United States, with the lowest duties for industrial products in the world, does not pick up much income when our international competitors' products come across our border. So, if we had a system that would tend to equate the rebate, if you will, that American exporters would pay for services rendered domestically and would eliminate those from the price of our goods as we market them abroad, it would put us on a much more level playing field with those countries which are most of our industrial trading

partners, who use the value-added tax rebate mechanism as a way of increasing their international competitiveness.

Depending upon what rate structures were used there, one could visualize that that border tax, if you will, on goods that cross the border would be sufficient to offset—in fact, one of the major revenue raising schemes that we have in our Tax Code, of course, is the corporate income tax. The corporate income tax ultimately does get built into the cost of all of our goods and services as we price them out, because we have to recover an adequate return after the payment of that tax on the capital that is investment in our plants and in the research and development investments that we do make.

So, I think it has some merit, Congressman. Obviously, it would have an effect on domestic pricing levels. It would shift somewhat the burden of taxation to the price of goods, rather than to the cost of capital, but it would be moving the U.S. manufacturing industries, particularly that sector that competes in the world marketplace, to a more comparable playing field to that of our international competitors.

Mr. SCHULZE. Thank you for your observation.

Thank you, Mr. Chairman. I thank you, Mr. Bates, for your testimony.

Chairman GIBBONS. Thank you.

I hope people will give serious consideration to what you have said, Mr. Baker, because it appears to me that the United States, among all of the industrialized nations, is perhaps the only one that penalizes its exports and subsidizes its imports with its tax system.

Mr. BAKER. You are absolutely correct, sir.

Chairman GIBBONS. I would hope that organized labor would catch on that the current tax system is paying to export their jobs. They do not seem to understand that.

Mr. BAKER. You are absolutely correct, it is a job-related circumstance.

Chairman GIBBONS. I cannot even get them to talk about it. It seems to me that the current tax system, as it interacts with the rest of the world, is probably the biggest impediment we have to trade and to our own economy, and while labor fights to preserve jobs in this country, the tax system is paying to export those jobs to other countries.

Mr. Pease, do you have any questions?

Mr. PEASE. Thank you, Mr. Chairman.

I arrived late and I apologize, so I do not intend to indulge very much in questioning. I was looking at your testimony, Mr. Baker. I see that CMA supports the United States-Mexico Free Trade Agreement. I do not know if you were here this morning when I made a statement in connection with my question to Carla Hills or not.

Mr. BAKER Unfortunately, I got here just after you had completed your questioning.

Mr. PEASE. Maybe fortunate or unfortunate, depending on your point of view.

In any event, I represent a Rust Belt area in northern Ohio. We have traditionally had chemical plants—B.F. Goodrich and others—that pay good wages. What I was saying to Mrs. Hills was

that when American companies make decisions on where to locate plants, many factors are considered such as transportation systems, the skill of the workers, proximity to markets, you name it. Such factors also include wage levels and other production costs; for example, the cost of complying with environmental laws in the United States versus some place else, the cost of complying with worker health and safety laws in the United States versus elsewhere.

What I was saying was that it looked to me as if entering into a free-trade agreement with Mexico would result in the corporate C.P.A.'s, looking at the bottom line that the computer spits out and concluding that it would be marginally cheaper to produce in Mexico than in Elyria, OH, or Lorain, OH.

Ms. Hills' response was, well, in the long run, this will strengthen our country and the workers of this generation have to look to creating jobs for their sons and daughters and grandchildren. That is not a whole lot of comfort, frankly, to the workers who are currently working in chemical plants in my congressional district.

I just wonder what your perspective might be on this, whether you see it as I do, in terms of the factors corporations consider in making decisions on where to locate plants.

Mr. BAKER. Congressman, I can only speak, of course, for the chemical industry, but I think you would be very proud of the standards that we have imposed upon ourselves regarding worker health and environmental standards, regardless of where those workers were located in the world.

The American chemical industry has, by far, the safest record on worker safety of any industry, not only in this country, but in the world, and we have the same standards outside the United States as we do within the United States. The lost time accident rate for a worker in an American chemical plant in Europe or Asia or the United States is essentially the same.

Also, we use the same environmental standards in the design and construction of our plants. We do not think there is going to be any difference in the environmental standards that are practiced around the world in the longer term, certainly not within the life span of the plants that we are building today. In fact, we could not get to build a new plant today, if we were to choose to offer to design that plant in the host country such as Mexico on a standards less than the United States. The first question the permitting authorities would ask is what are your environmental standards and how do they compare with your sister plants in the United States. If we were to offer a substandard, we would not get permission to build that plant.

The reason we build plants in overseas countries, the reason those plants are a magnet for exports from the United States, in terms of flow of goods through those plants, is because we need access to local markets. Transportation is an important ingredient in chemical products, in many cases. It happens that industrial gases, which we have to compress and put into high-pressure cylinders, just cannot travel long distances, we have to manufacture locally, and that is true of many other chemical products. Access to raw materials and then, of course, being responsive to our customers' needs on a local basis is another criterion.

We have found that where we can locate and build plants abroad, we start by doing the simplest things first and then we gradually do more complex processing as we build up those markets. But during that timeframe while we are building markets, we export substantially more product from our U.S.-based plants to those affiliated plants abroad. As I think I said before you came in, 40 percent of the exports of American-made chemical products that go overseas go to affiliated companies abroad and then are further processed to supply the specific needs of the local marketplace.

An example that I think is good, in 1988, before we started the free trade agreement with Canada, we enjoyed a favorable trade balance in chemicals of $254 million. In 1990, our trade balance with Canada is now $1.5 billion. During the same timeframe, with the same competitive base plants in the United States, our exports to Mexico have grown only from $1.2 billion to $1.5 billion, almost the difference in the inflation rate that has occurred.

The free trade agreement with Canada has multiplied our trade balance by sevenfold. It has allowed competitive-based U.S. plants and competitive productivity-oriented U.S. labor to export far more products to that market than would otherwise have been the case.

Mr. PEASE. I appreciate that statement. It appears to me that your industry is maybe different from some others. What you are saying is that when you export to a country like Mexico, essentially what you are doing is procuring entry into the Mexican market through United States-owned plants——

Mr. BAKER. A market we could not otherwise reach.

Mr. PEASE [continuing]. And that you are not sending products to Mexico, working on them, and then bringing them back into the United States. Do you do much——

Mr. BAKER. That is essentially correct for the chemical industry, that is right.

Mr. PEASE. Well, I think it would be a different kettle of fish if your products were reexported from Mexico to the United States. I am very pleased to hear that, as an industry, you feel that in plants outside the United States, you are applying the same environmental and worker safety standards that you apply in the United States, and that you build foreign plants and U.S. plants in the same manner.

Mr. BAKER. Absolutely.

Mr. PEASE. I wish I could count on every other industry to do the same.

Mr. BAKER. Well, I think more and more are doing that. We live in one world today, and the standards are quickly becoming the same. I think we are rapidly all becoming environmentalists.

Mr. PEASE. Do you follow that same philosophy when it comes to the wages you pay in those other countries?

Mr. BAKER. We pay a competitive wage that is in effect in that country. We have to compete with other local-based industries in that country. Wages are not the determining factor as to where we build our plants, but we do have to compete locally with other manufacturers of similar products in those countries.

Mr. PEASE. What happens if the other manufacturers have environmental and worker safety regimes which meet local standards, not U.S. standards? Are you not at a competitive disadvantage?

Mr. BAKER. That would be a problem for us, so long as those standards exist, but Mexico does not want American industry to come down there and pollute. They are going to insist that the standards we employ in the design of our plants in Mexico are at least equal to the standards we have in the United States. I have spoken to President Salinas on that point and he does not want polluting industries coming to Mexico. If you have been in Mexico City recently, you can understand why he says that.

Mr. PEASE. Well, I have been and they certainly do have a severe pollution problem.

Well, I am pleased with the report at least from your own industry. Thank you.

Mr. BAKER. Thank you.

Chairman GIBBONS. Thank you very much, gentlemen.

Mr. BAKER. Thank you, Mr. Chairman.

Mr. BATES. Thank you.

Chairman GIBBONS. Without objection, Mr. Berman's statement will be entered into the record.

[Due to time constraints of Mr. Berman, he was unable to appear to testify. His prepared statement follows:]

STATEMENT OF JASON S. BERMAN, PRESIDENT
RECORDING INDUSTRY ASSOCIATION OF AMERICA

MY NAME IS JAY BERMAN AND I AM PRESIDENT OF THE RECORDING INDUSTRY ASSOCIATION OF AMERICA. ON BEHALF OF THE ASSOCIATION AND ITS MORE THAN 50 MEMBERS, I WANT TO EXPRESS MY APPRECIATION TO THE COMMITTEE FOR GIVING ME THE OPPORTUNITY TO APPEAR BEFORE YOU TODAY. WE REPRESENT THE COPYRIGHT OWNERS OF OVER NINETY PERCENT OF THE PRERECORDED MUSIC IN AMERICA, WITH WORLDWIDE SALES IN EXCESS OF TEN BILLION DOLLARS A YEAR. OUR MEMBERSHIP INCLUDES THE SO-CALLED MAJORS -- FAMILIAR COMPANIES SUCH AS WARNER BROS., CAPITOL AND RCA AS WELL AS SMALL COMPANIES LIKE SPARROW AND JAMIE RECORDS. THE COMMON THREAD AMONG ALL OF THESE COMPANIES IS A FRAGILE EXISTENCE BASED UPON THE ADEQUATE AND EFFECTIVE PROTECTION OF SOUND RECORDINGS AROUND THE WORLD.

THIS THOUGHT CONVENIENTLY BRINGS ME TO THE TOPIC BEFORE US TODAY -- MEXICO. I APPEAR BEFORE YOU AS A MAN CAUGHT BETWEEN A SPONGE AND A SOFT PLACE. I SAY THIS BECAUSE EVERYONE THAT I SPEAK TO ON THE ISSUE OF THE NEED TO PROTECT U.S. SOUND RECORDINGS IN MEXICO SEEMS TO AGREE WITH ME. THE SALINAS ADMINISTRATION CALLS THE ADEQUATE AND EFFECTIVE PROTECTION OF INTELLECTUAL PROPERTY, INCLUDING SOUND RECORDINGS, A PRIORITY OF THE HIGHEST ORDER. THE BUSH ADMINISTRATION INFORMS US, AND HAS INFORMED YOU, THAT THEY EXPECT LEGISLATION OVERHAULING MEXICO'S INADEQUATE INTELLECTUAL PROPERTY LAWS TO BE ENACTED IN APRIL OR MAY OF THIS YEAR, RESULTING IN EXPRESS PROTECTION FOR U.S. SOUND RECORDING COPYRIGHT OWNERS. YOU THE CONGRESS, AND THIS COMMITTEE IN PARTICULAR, HAVE MADE YOUR INTENTIONS WITH RESPECT TO INTELLECTUAL PROPERTY VERY CLEAR -- FROM THE CBI INITIATIVE TO GSP, FROM THE 1988 OMNIBUS TRADE AND COMPETITIVENESS ACT TO YOUR OVERSIGHT OVER THE URUGUAY ROUND. YOU HAVE FORCEFULLY COMMANDED THAT COUNTRIES THAT DO NOT AFFORD ADEQUATE AND EFFECTIVE PROTECTION TO U.S. INTELLECTUAL PROPERTY MAY NOT BE PERMITTED ACCESS TO THE U.S. MARKET.

SO IF EVERYONE AGREES WITH ME, AND IT DOES NOT MAKE SENSE TO PREACH TO THE CONVERTED, WHAT AM I DOING HERE? THE ANSWER IS SIMPLE. TO BORROW A SPORTS ANALOGY: I'VE YET TO HEAR ANY FAT LADIES SINGING.

I WANT TO START OFF BY EXPRESSING MY INDEBTEDNESS TO AND APPRECIATION FOR THE WORK OF THIS COMMITTEE IN DEMONSTRATING ITS RESOLVE IN THE FIGHT FOR ADEQUATE AND EFFECTIVE COPYRIGHT PROTECTION WORLDWIDE, AS WELL AS MY SUPPORT AND ADMIRATION FOR THE TIRELESS EFFORTS OF AMBASSADOR HILLS AND HER STAFF FOR HER MARKET OPENING INITIATIVES IN THE URUGUAY ROUND AND IN BILATERAL NEGOTIATIONS. THE U.S. INTELLECTUAL PROPERTY INDUSTRIES IN GENERAL, AND THE U.S. RECORDING INDUSTRY IN PARTICULAR, HAVE BEEN THE BENEFICIARIES OF THIS UNENDING JOINT EFFORT.

I CANNOT OVEREMPHASIZE THE IMPORTANCE OF ADEQUATE AND EFFECTIVE COPYRIGHT PROTECTION IN FOREIGN MARKETS. U.S. RECORD COMPANIES CLAIM ABOUT FIFTY PERCENT OF THE WORLD'S $22 BILLION A YEAR TRADE IN RECORDINGS, AND NEARLY 40 PERCENT OF OUR TOTAL SALES OCCUR OUTSIDE THE UNITED STATES. THE PERCENTAGE OF OVERSEAS SALES WILL ONLY INCREASE AS THE NEWLY INDUSTRIALIZED AND LESSER DEVELOPED COUNTRIES MOVE FURTHER INTO THE MAINSTREAM OF WORLD COMMERCE. THE DEVELOPMENT OF NEW TECHNOLOGIES PERMITTING RAPID DISSEMINATION OF INFORMATION AND ENTERTAINMENT WILL FURTHER ENSURE THAT U.S. SOUND RECORDINGS WILL REACH AN EVEN WIDER AUDIENCE.

DEVELOPMENTS IN TECHNOLOGY, COUPLED WITH THE WORLD'S THIRST FOR U.S. CULTURE, PRIMARILY CONVEYED VIA OUR MUSIC AND OUR FILMS, HAS RAISED THE ALREADY HIGH STAKES IN TERMS OF ADEQUATE AND EFFECTIVE COPYRIGHT PROTECTION WORLDWIDE. TECHNOLOGY IS A DOUBLE-EDGED SWORD. FOR WHILE IT MAY OFFER NEW CREATIVE SOLUTIONS TO THE AGE OLD PROBLEM OF DISTRIBUTION, AS WELL AS AN INCENTIVE FOR THE CREATION OF NEW CLASSES OF WORKS, IT CAN, IF UNCHECKED, COMPLETELY UNDERCUT A COPYRIGHT OWNER'S ABILITY TO CONTROL THE UNAUTHORIZED REPRODUCTION AND DISTRIBUTION OF HIS WORKS -- THEREBY UNDERMINING THE ECONOMIC INCENTIVE UPON WHICH OUR ENTIRE COPYRIGHT SYSTEM IS BASED. INADEQUATE COPYRIGHT PROTECTION HAS THE POTENTIAL, THEREFORE, TO CREATE MAJOR TRADE DISTORTIONS, PARTICULARLY IN AN ENVIRONMENT IN WHICH COPYRIGHT OWNERS MAY LOSE CONTROL OF THEIR WORKS AS A RESULT OF THE ADVENT OF NEW TECHNOLOGIES.

AT THIS POINT, SOME OF YOU MUST BE WONDERING HOW THIS RELATES TO MEXICO AND THE ISSUES BEFORE US TODAY. ALLOW ME TO MAKE THE CONNECTIONS.

MEXICO TODAY OFFERS NO PROTECTION TO SOUND RECORDINGS -- NONE TO U.S. RECORDINGS, NONE TO MEXICAN RECORDINGS. WE ESTIMATE THAT ANNUAL SALES OF PIRATED SOUND RECORDINGS IN MEXICO EXCEED $250 MILLION -- AT LEAST $75 MILLION REPRESENTS LOSSES TO U.S. RECORD COMPANIES. U.S. AND MEXICAN RECORD COMPANIES, PERFORMERS, MUSICIANS, STUDIO ENGINEERS, SONGWRITERS AND PUBLISHERS ARE BEING DEVASTATED BY RAMPANT PIRACY. THERE ARE REPORTS THAT THERE ARE OVER 4 THOUSAND VENDORS OF PIRATE RECORDINGS IN MEXICO CITY ALONE.

I AM HOPEFUL THAT THIS FUNDAMENTAL AND GAPING INADEQUACY IN MEXICAN LEGISLATION WILL BE RESOLVED IN APRIL OR MAY OF THIS YEAR WHEN THE MEXICAN PARLIAMENT RECONVENES. IN MY VIEW, MR. CHAIRMAN, THE ISSUE OF COPYRIGHT PROTECTION FOR SOUND RECORDINGS IS NOT AN APPROPRIATE SUBJECT FOR THE FTA. WE CAN'T AFFORD TO WAIT ANOTHER THREE YEARS. GIVEN EXISTING MARKET CONDITIONS AND LOSSES TO U.S. RECORD COMPANIES, IT NEEDS TO BE RESOLVED EVEN BEFORE THE FTA AND THE MEXICANS HAVE ACKNOWLEDGED THIS. IF IT IS NOT, YOU WILL HEAR FROM ME AGAIN PRIOR TO THE FINAL VOTE ON THE EXTENSION OF NEGOTIATING AUTHORITY. AGAIN, LET ME SAY THAT I ASSUME IT WILL BE RESOLVED, BUT SEEING IS BELIEVING.

LET ME TURN NOW TO A FEW OF THE UNDERLYING ISSUES THAT NEED TO BE ADDRESSED IN THE CONTEXT OF EXTENDING NEGOTIATING AUTHORITY FOR THE FTA.

FREE TRADE, AS YOU KNOW MR. CHAIRMAN, IS WITHOUT A FIXED MEANING IN ITS PARTICULARS AND IS SUBJECT TO EVER-CHANGING CRITERIA IN ITS EVALUATION. FREE TRADE WITHOUT MEANINGFUL INTELLECTUAL PROPERTY PROTECTION IS AN OXYMORON. FREE TRADE PERMITTING ENTIRE SECTORAL EXCLUSION FROM NATIONAL TREATMENT AND NON-DISCRIMINATION ON THE BASIS OF CULTURE IS UNACCEPTABLE AND MUST BE RESISTED. THE SO-CALLED "CULTURAL EXEMPTION" PROVISION IN THE CANADA FREE TRADE AGREEMENT MUST NOT BE EXTENDED TO THE MEXICAN FTA. WE NEED TO LEARN FROM THE CANADIAN FTA -- AND NOT MAKE THE SAME MISTAKES -- CULTURAL EXEMPTION. THE APPARENT RATIONALE FOR A CULTURAL EXCLUSION IS ROOTED IN A MISPLACED NATIONALISM AND IN A DEEP MISUNDERSTANDING ABOUT THE NATURE OF CULTURE. CULTURE IS NOT, AS THE CANADIANS SEEM TO THINK, MERELY THE PRESERVATION OF HISTORICAL NATIONAL

CHARACTERISTICS. IT IS MORE THAN THE PAST, FOR IT MUST INCLUDE THE PRESENT AS WELL. IN TRUTH, MR. CHAIRMAN, WE DO NOT SEEK TO DESTROY OTHER NATIONAL CULTURES, BUT MERELY TO PERMIT OTHERS TO HAVE ACCESS TO OURS.

WORSE YET, "CULTURE" IS FREQUENTLY MERELY A CONVENIENT, IF THINLY VEILED, DISGUISE FOR ECONOMIC PROTECTIONISM, AND HAS LITTLE TO DO WITH CONTENT, BUT A GREAT DEAL TO DO WITH WHO WILL PROFIT FROM THE EXPLOITATION OF AMERICAN COPYRIGHTED MATERIALS AND THAT WAS EXACTLY THE REAL POINT AT ISSUE WITH THE CANADIANS. IT WASN'T CULTURE, IT WAS COMMERCE.

IN CONCLUSION, LET ME SAY THAT I PLACE GREAT HOPE IN THE FUTURE OF FREE TRADE NEGOTIATIONS GENERALLY AND IN THIS MEXICO-CANADA-U.S. TRILATERAL IN PARTICULAR. OUTSIDE OF THE NEGOTIATIONS ON THE FTA, MEXICO HAS PLEDGED TO ENACT A COPYRIGHT LAW EXTENDING ADEQUATE PROTECTION TO SOUND RECORDINGS AND ENACT SIMILAR INTELLECTUAL PROPERTY REFORMS IN OTHER AREAS. IF ENACTED, THIS WOULD SERVE AS A SYMBOL OF THE GOOD FAITH SUCH NEGOTIATIONS MIGHT TAKE. GIVEN THIS SCENARIO, I WOULD SUPPORT EXTENDING THE PRESIDENT'S FAST TRACK NEGOTIATING AUTHORITY, FOR THE FUTURE COMPETITIVENESS OF THE U.S. ECONOMY RELIES ON A HEALTHY WORLD TRADING SYSTEM -- MADE MORE VIABLE BY THE DEVELOPMENT OF SOUND LOCAL BUSINESS ENVIRONMENTS AROUND THE WORLD. AT THE SAME TIME, I CAUTION YOU TO READ BETWEEN THE LINES OF FREE TRADE BANNERS AND TO ENSURE THAT THE LIMITATIONS ON FREE TRADE -- FOR EXAMPLE NON-APPLICATION OF NATIONAL TREATMENT FOR SO-CALLED CULTURAL PURPOSES -- NOT SWALLOW UP THE RULE OF FREE TRADE. THE HIGHEST LEVELS OF INTELLECTUAL PROPERTY PROTECTION MEAN LITTLE IF BARRIERS ERECTED IN THE NAME OF CULTURE PREVENT MEANINGFUL ACCESS TO A MARKET.

RIAA MEMBER COMPANIES

ABC Group
ABKCO Music & Records
A&M Records, Inc.
Allegiance Records, Ltd.
Alshire International, Inc.
Ansonia Records, Inc.
Arista Records, Inc.
Atlantic Recording Corp.
BMG Music
Blue Note Records
Brimstone Records
Capitol-EMI Music, Inc.
Clarus Music, Ltd.
CSP
Columbia Group
Curb Records
Elektra Entertainment
Enigma Entertainment
Epic Group
Estarion Lyrical Productions, Inc.
GRP Records
Geffen Records
Giant Records
Global Pacific Records
Heart & Soul Productions, Inc.
Hollywood Records
IDR-Imagery Dick Records
Ice Records, Inc.
Incas Records
Island Records, Inc.
Jamie Records
Joey Records
K-tel International, Inc.
LeFrak-Moelis Records
LeMaste Corp.
MCA Music Entertainment Group
Masterworks
Mercury Records
Motown Records
Narada Productions, Inc.
MTM Music Group
Next Plateau Records
Pasha Music Organization
PDS Records
PolyGram Records, Inc.
Qwest Records
RCA Records Label
R. Francis Entertainment
SBK Records Group
Showtime Records
Sire Records Company
Slash Records
Solar Records
Sony Music Entertainment, Inc.
Sound Feelings Records
Sparrow Corp.
Tabu Productions
TELARC
Tip Records
Tommy Boy Records
Virgin Records
Walt Disney Records
Warner Bros. Records
WEA
WORD
Whitewing Records

Chairman GIBBONS. Mr. Holleyman, you may proceed.

STATEMENT OF ROBERT W. HOLLEYMAN II, MANAGING DIRECTOR, BUSINESS SOFTWARE ALLIANCE, ALSO ON BEHALF OF SOFTWARE PUBLISHERS ASSOCIATION

Mr. HOLLEYMAN. Thank you, Mr. Chairman, members of the committee. My name is Robert Holleyman and I am the managing director of the Business Software Alliance. I would like to express my appreciation on behalf of the Business Software Alliance and the Software Publishers Association, for whom I am speaking today, for the opportunity to testify on the proposed negotiations of a free trade agreement with Mexico.

Very briefly I will identify the two associations that I am representing and then summarize the highlights of my written testimony.

The Software Publishers Association is the principal trade association of the personal computer software industry. They represent nearly 800 computer software publishers in the business, education, consumer, and entertainment sectors of the industry. The Business Software Alliance, for whom I work, is a coalition of some of the largest business applications and networking software companies. We were formed in 1988 for the specific purpose of combating software piracy around the world.

We have engaged, as an organization, in the effort to combat software piracy because the problem is so rampant that we felt that we had to do something collectively as an industry to protect our interests. We do that through a variety of mechanisms, chief among those would be the enforcement of strong intellectual property laws around the world, as well as education. We also, when necessary, initiate legal actions to enforce our copyrights when they are violated.

A fundamental principle of the Business Software Alliance is that we support free and open world trade in legitimate business software. The U.S. software industry collectively represents nearly 60 percent of worldwide sales in software and the members of our two associations within the United States represent the majority of the U.S. industry. We have long held that we are more than eager to compete in any market around the world, as long as fundamental copyright laws are in place which allows us to do so fairly.

I would like to address briefly the software piracy problem and then tie that into the Mexico Free Trade Agreement and the proposed negotiations.

Software piracy is an enormous problem. That is primarily because every personal computer is also a software copying machine. The technology which provides a computer its utility also provides for the easy theft of our product. We see it in two principal forms in the software industry.

One is from commercial piracy—those who copy our product for resale on the market. The second and perhaps the most common problem for the software industry is end-user piracy. End-user piracy occurs in the form of the business entity, the business owner, who purchases one copy of our software, a Lotus 1-2-3 spreadsheet or a Wordperfect program for example and then copies

it 99 times for the 100 personal computers in their office. That is a violation of generally accepted copyright principles. It occurs without any compensation to my members for the research and development and the support that they provide for their software.

As an industry, we are losing nearly $10 to $12 billion a year as a result of worldwide piracy. That is a figure which is nearly equal to the $12 billion the U.S. industry generates as a result of foreign sales.

That is bringing me to the point of Mexico. In Mexico, the software industry estimates that in 1991 we will suffer losses as a result of piracy in excess of $100 million. This is an increase in the losses that we estimated in 1989 which were approximately $80 million and this represents the fact that the installed base of personal computers in Mexico is growing. As a result the piracy problem is growing.

We estimate that for every one legitimate software package in Mexico, there are as many as eight illegal copies in use. You can see the scope of the problem. However, the problem takes another manifestation in that in Mexico unlike most countries around the world, the software industry is virtually powerless to do anything to enforce its rights. The existing Mexican copyright law is wholly inadequate when it comes to copyright protection for software. There is no explicit protection under the Mexican copyright law for software. The existing criminal penalties for violations of copyrights were the software to achieve full protection are inadequate. They are about 10,000 pesos for a violation. At current rates of exchange that is about $3.40 U.S. per copyright violation.

You can see for my industry, where the cost of software may be several hundred dollars, that the cost of doing business for infringers, if there were to be a fine of $3.40, would be wholly inadequate to address the problem.

As a result, we have been virtually powerless to do anything, as an industry, in Mexico to protect our copyrights. We are in the same camp in that regard as the Mexican software industry. Neither of us can do anything to enforce our rights because we believe that an adverse judgment in a legal action would, in fact, make an already bad case worse for us.

With that in mind, we have been working since 1989 with ANIPCO, which is the Mexican software industry trade association, to promote a copyright reform bill in Mexico. We have had some success. Last year a proposal was submitted to the Mexican Congress that would have achieved some reforms in the area of protection, enforcement, and penalties. While we have some reservations, as an industry, about the reform package, we supported it in the belief that it was critical to achieve early enactment of more explicit protection for software.

However, despite the assurances that we received last year and in 1989, we did not see the enactment of a copyright legislation. And in our effort to try to determine why that has occurred, we have been given two explanations.

The first explanation we have been given for the failure of the Mexican Congress to adopt a copyright reform law is that the Minister of Commerce in Mexico had decided at the end of 1990 to delay consideration of a copyright bill so that it could be considered

this spring in the context of a broader intellectual property package. We hope that is the case.

The second and more frequently heard explanation for the delay in enactment of a copyright bill is that the bill is being used as leverage, as a bargaining chip if you will, in the upcoming free-trade negotiations. You can readily see if that explanation is, in fact, true, why our industry is greatly concerned.

Recently we have heard that copyright reform legislation will be considered this spring, and I know this morning Ambassador Hills testified that there have been new assurances from the Salinas government and from the Mexican Congress that, in fact, this year, 1991, would be the year in which we would see a copyright reform bill. The Mexican Congress convenes in April for a brief spring session and we, as an industry, strongly hope that this indeed will be the year that they will adopt the bill and give us the means that we need to enforce copyrights.

However, we feel that we can only begin to see the sort of support and progress we need in Mexico if the United States Government, our allies here in Congress, at USTR, and the administration continue to maintain the pressure that has been placed on the Mexicans to adopt a copyright reform bill immediately, and not to delay its passage for a free trade agreement.

To do anything less will cause our industry to continue to suffer the type of losses that we have in Mexico, again, $100 million projected this year, without any tools whatsoever to begin to combat the problem.

The Business Software Alliance and the Software Publishers Association strongly support free trade. Free and open trade is a fundamental aspect of my industry and of my organization. We want to see a free trade agreement with Mexico, however, as an industry, we will be watching closely to see the developments that occur in April. If copyright reform legislation is approved, as we have been promised, we would then applaud the Salinas government and enthusiastically support efforts to improve trade relations between our two great nations.

If, however, there is a failure to enact legislation, our industry, which would normally be very supportive of a free trade agreement, would have to question seriously the validity of entering into a fast-track negotiation with a country that had refused once again to provide even minimal levels of protection for computer software.

In conclusion, Mr. Chairman, as April 1991 approaches, our industry remains hopeful. However, for copyright reform legislation to occur this spring, we must continue to ask for help as you have given us in the past in conveying to your colleagues and to the Mexican Government why copyright reform legislation is essential.

We are hopeful but we need the tools to help us to begin to take our own actions to enforce our rights. Only when we have these fundamental copyright laws in place as we have in the United States and as we have in other nations around the world, can the U.S. software industry continue with the level of development that it has undertaken in the past and which I believe has fostered the remarkable success and growth of our industry.

Thank you, very much, for your attention.

[The prepared statement follows:]

STATEMENT BY ROBERT W HOLLEYMAN, II

MANAGING DIRECTOR, BUSINESS SOFTWARE ALLIANCE (BSA)

ON BEHALF OF THE SOFTWARE PUBLISHERS ASSOCIATION AND THE BSA

REGARDING THE PROPOSED NEGOTIATION OF A FREE TRADE AGREEMENT WITH MEXICO

The Software Publishers Association (SPA) is the leading trade association of the personal computer software industry and represents nearly 800 business, education, and entertainment software publishing companies. It is closely affiliated with the Business Software Alliance, or BSA, whose eight members include software producers, Aldus, Ashton-Tate, Autodesk, Digital Research, Lotus Development, Microsoft, Novell and WordPerfect. The BSA's mission is to protect the intellectual property rights of the software firms outside the U.S. In doing this, it seeks intellectual property protection for software, conducts public awareness and education campaigns to combat software piracy and brings copyright infringement litigation against software pirates. The BSA and the SPA appreciate the opportunity to present testimony regarding the proposed Free Trade Agreement (FTA) with Mexico, the software industry's concerns with regard to current inadequate intellectual property protection within Mexico, and the implications of this for the proposed FTA.

Software piracy is an immense problem exhibited in two principal forms -- through commercial pirates who copy software for resale, and by end users -- such as businesses -- who illegally copy software for use within their organizations. Worldwide piracy costs the software industry $10 - 12 billion in lost earnings each year. This is an amount nearly equal to the $12 billion the software industry contributes each year to the U.S. economy through foreign sales. Through the BSA and other joint and individual efforts, our industry conducts vigorous anti-piracy campaigns in most major markets in the world. But, we can only conduct an effective campaign where local law makes software piracy clearly illegal.

Current Mexican law is deficient for software publishers in several important respects. Penalties are woefully inadequate. The maximum criminal fine for infringement is 10,000 pesos, equal to about $3.40 at current rates of exchange.

Present law provides an explicit exemption for "private" copying, and requires an element of "lucro" or "profit" in order for there to be infringement. Together, these two features persuade many legal experts and users that copying which is not

done for resale (e.g. internal copying in a company, government office, or educational institution) is permitted. There is sufficient concern on this point that the industry has thus far been deterred from initiating enforcement action against an organizational end user for fear that an adverse judgment would cause what is already a very bad problem to become significantly worse.

A further shortcoming is the fact that computer software is not explicitly protected under the current statute. Although administrative action is generally recognized to have brought software within the ambit of copyright law (as a form of literary work), the absence of explicit protection perpetuates doubt among significant numbers of dealers and end users as to whether copying is really prohibited.

Software piracy in Mexico is pandemic and losses to U.S. software companies are extremely high. It is currently estimated that for every one legitimate software package sold in Mexico there are approximately eight illegal copies in use. In 1989, the Business Software Alliance estimated computer software industry losses in Mexico at a staggering $80 million. Moreover, the size of the problem is growing quickly as Mexico is rapidly becoming more computerized. We estimate the losses to piracy in Mexico in 1991 will be at least $100 million. The U.S. software and copyright industries, which add collectively over $300 billion in value to the U.S. GNP, are gravely concerned about the danger posed by the unwillingness of Mexico, to date, to provide adequate and effective copyright protection.

Since 1988, the Business Software Alliance has been working with and supporting the efforts of ANIPCO, the software trade association in Mexico, to promote the passage of a stronger copyright law. ANIPCO's efforts clearly demonstrate that an effective copyright bill is in the interest of all copyright holders, not only the U.S. software companies. The BSA, through its member companies, has also maintained regular contact with the Office of U.S. Trade Representative (USTR) and the U.S. Department of Commerce on this issue.

A copyright bill was introduced in the Mexican Congress last spring which addresses each of the deficiencies in present law described above; it would provide explicit protection for computer software, make it clear that end user software piracy constitutes copyright infringement, and increase the penalties for copyright violations. Although the bill contains certain ambiguous language and does not impose adequately strong penalties, the U.S. software industry nevertheless supports this bill in its effort to seek immediate copyright reform.

Despite numerous promises and assurances to the U.S. government and representatives of U.S. and local software companies in Mexico that copyright reform was imminent, dating back as far as 1989, the Mexican government has thus far failed to implement reforms to its copyright law, leaving the computer software industry without fundamental tools needed to help curb the massive losses it continues to suffer. While we cannot be certain why legislation has not been approved, we have been informed by reliable sources that a couple of factors may be at

work.

One analysis is that the Minister of Commerce took action to delay passage of the copyright bill in order to be able to present a more comprehensive package of intellectual property law legislation all at once. If this is so, it would seem to be fairly positive, as the completion of draft legislation on patents and trademarks is reported to have occurred this past December, opening the door to action on the package next congressional session.

Another analysis, more frequently heard and quite troubling, is that action on copyright reform was frozen at the instigation of the Minister of Commerce in order to use it as a bargaining chip in free trade agreement negotiations with the U.S.

The software industry in the United States has no reason to oppose a free trade agreement with Mexico, and indeed strongly supports the general principles of free and open trade which underlie such talks. But it would be unreasonable and cynical for the government of Mexico to enter such talks holding hostage a simple, straight-forward, long-ready and long-promised piece of remedial legislation that will help the software industry do nothing more than try to curb the massive losses we currently experience from theft of our products and property.

In conclusion, the BSA and the SPA respectfully urge the members of this Committee, in considering the proposed FTA, to convey to your Mexican counterparts, USTR, and all of the officials involved in the interagency FTA process, the importance of Mexico's immediate fulfillment of its commitments to afford adequate protection to US intellectual property, particularly copyright protection for computer programs. The assistance of this Committee -- and that of the U.S. government as a whole -- can make a critical difference as the Mexican Congress convenes in April for its brief spring session. That session will provide the Mexican government with a clear opportunity to adopt the fundamental copyright reforms that have been promised.

If the Mexican Congress enacts the copyright bill at this time, we applaud the Salinas government and will enthusiastically support efforts to further improve trade relations between our great nations. If Mexico once again fails to fulfill its commitment, we urge this Committee and others in Congress to carefully weigh the Mexican Government's repeated failure to provide fundamental and long-promised copyright protection for U.S. and foreign works in connection with its consideration of the benefits of a Free Trade Agreement and the appropriateness of fast-track negotiating authority.

In the event of Mexico's failure to enact such legislation, we would question the wisdom and propriety of entering into fast-track negotiations to achieve a Free Trade Agreement with a country that has again refused to extend even minimally adequate levels of copyright protection to computer software.

Chairman GIBBONS. Mr. Holleyman, let me ask you, you participated in the ISAC groups on these trade negotiations, does your industry?

Mr. HOLLEYMAN. We have had representatives of our industry participate in related groups, although I personally have not done so.

Chairman GIBBONS. What I want to ask you about is what kind of cooperation do you get from the USTR? Are they paying attention to you?

Mr. HOLLEYMAN. Very much so, Mr. Chairman. Everyone in our industry with whom I have talked would lead us to believe, and from my own personal experience I can state that the USTR is an eminently strong ally of our industry. I think that is because our industry has been historically in its young future such a bright spot on the U.S. trade picture. So that we have no criticism whatsoever for USTR. In fact, we would praise their efforts. However, our concern has been despite the promises and repeated assurances we have received from the Mexican Government we are now 2 years from the time that we began to receive such assurances and we have yet to see this fundamental copyright reform law adopted. That is where the bulk of our concerns rest.

Chairman GIBBONS. I know you will be following this action by the Mexican Government and I hope that you will keep us posted as to what kind of success you have so that if it is necessary we can lend whatever pressure needs to be applied to get something done about it.

Mr. HOLLEYMAN. We appreciate that. We feel that this comes at a fairly opportune time in that the promised legislation will be considered in April and we will certainly continue to keep you and your staff, as we have in the past, informed and would appreciate your help and support.

Chairman GIBBONS. Mr. Pease.

Mr. PEASE. Thank you, Mr. Chairman.

I would just like to thank Mr. Holleyman for his testimony. I think it has been good testimony, very informative, very clear, and easy to understand. And I think it gives the subcommittee a valuable perspective on a very important part of a U.S. industry.

Thank you.

Mr. HOLLEYMAN. Thank you.

Chairman GIBBONS. Thank you, sir.

Next we have a panel composed of Friends of the Earth, the International Labor Rights Education and Research Fund, the Child Labor Coalition, and the National Safe Workplace Institute.

Alex Hittle, Pharis Harvey, Linda Golodner, and Lorraine Mora.

STATEMENT OF DAVID E. ORTMAN, NORTHWEST REPRESENTATIVE, FRIENDS OF THE EARTH; ALSO ON BEHALF OF NATIONAL WILDLIFE FEDERATION, AND THE TEXAS CENTER FOR POLICY STUDIES

Mr. ORTMAN. Thank you, Mr. Chairman, and members of the committee.

My name is David Ortman and I am the northwest representative of Friends of the Earth in Seattle, WA. Alex Hittle is our

international coordinator who assisted in preparing this testimony. I am here today to illustrate that there is a concern across the country with the United States-Mexico trade agreement that must be addressed. Friends of the Earth is a national, nonprofit, environmental organization. We have affiliate organizations in 43 countries and work on a wide range of national and international environmental issues.

We commend the subcommittee for holding this timely set of hearings on a comprehensive North American trade agreement and we appreciate the opportunity to present these comments today on behalf of the Friends of the Earth, the National Wildlife Federation, and the Texas Center for Policy Studies. We believe it is the first time that the environmental community has come forward to express our concerns on behalf of our community.

I will summarize my remarks and ask that our complete statement be entered into the record.

Chairman GIBBONS. Certainly, without objection, it will be entered.

Mr. ORTMAN. Thank you.

We cannot support the comprehensive North American trade agreement and the fast-track procedure proposed by the administration at this time. We would like to underscore, at this time. The effects could be tremendous and long lasting on the environment and on environmental policies.

Trade agreements are major Federal actions under the National Environmental Policy Act which require the fullest and broadest analysis of their magnitude and impacts. Today trade policy in the United States, Canada, Mexico, and elsewhere focuses on trade deficits not environmental degradation, and on trade protectionism and not environmental protection, and on national security, and not on ecological security.

It is perplexing to review the past 20 years since Earth Day and have to ask the question, how did the environment get left behind when the trade boat left the dock? It is time to address this question.

In the past, the administration has been free to negotiate trade agreements without taking into consideration the environmental impacts or costs to this country. In our view, it is critical that Congress consider these impacts as it debates a comprehensive trade agreement.

Our written comments include examples of problems in the following areas. First, the threats to the border environment. A limited experiment with free trade is already under way between the United States and Mexico. Maquiladoras free trade zones offer painful examples of the environmental problems of free trade. Poor environmental controls have contaminated the drinking water of United States as well as Mexican citizens. For the past 2 decades, over 95 percent of the maquila industries could not account for their hazardous wastes, as required by law.

Water pollution in the New River, which flows from Mexico to California has been well documented as well.

On the harmonization or preemption of environmental laws, the question of whether environmental standards are nontariff barriers often lies in the eyes of the beholder or the polluter as the case

may be. Steve Shrybman of the Canadian Environmental Law Association has documented several existing environmental problems under the United States-Canada Free Trade Agreement. For example, the Canadian Government has challenged the United States EPA's asbestos regulations under provisions of the free trade agreement. In 1989, the EPA announced new regulations to begin a phaseout on the production, import, and use of asbestos over 7 years. The Canadian Government, in turn, challenged the regulations as an unfair barrier to trade. The case is pending in the Fifth Circuit Court of Appeals.

In addition to the troubling example of the United States-Canada trade agreement, Alex Hittle, our international coordinator for Friends of the Earth, has summarized a study prepared by the European Commission in 1989 of the environmental effects of the implementation of the Common Internal Market in Europe in 1992. A task force explored a wide range of effects, the most significant of which was the increase of transportation that would result from greater trade. The task force concluded that the common internal market would increase interstate truck transport in the EC between 30 and 50 percent. According to the task force, the "growth impact of the internal market is likely to cause atmospheric emissions of SO_2 and NO_Xs to increase respectively by 8 to 9 percent and 12 to 14 percent by the year 2010."

An unwillingness by the administration to analyze and mitigate for similar air pollution impacts at a time in which the EPA has just taken a major step to try to improve visibility in the Grand Canyon National Park seems counterproductive.

There may also be implications for the highway bill reauthorization that Congress will take up this year. The study goes on to conclude in the European case, that "without proper incentives, energy demand and corresponding pollution appears to positively correlate with additional economic growth."

Two things are clear from Europe's experience. The first is that trade agreements and other market liberalizing measures do have profound environmental effects. Second, these agreements must include environmental compensatory measures in order to avoid having trade depend on competitive destruction of natural resources.

In 1969, Congress passed the National Environmental Policy Act, which recognized the profound impact of our activity, including industrial expansion, I might add, on the interrelationships of all the components of the natural environment. And yet, the administration seems to ignore the potentially profound environmental effects of trade agreements.

In Seattle, in late 1990 for example, the U.S. Trade Ambassador Carla Hills promised to double world trade in 10 years but dismissed NEPA's requirements and potential environmental effects. In September of last year, EPA Administrator Bill Reilly gave an address at the National Press Club in which he stated that EPA was now a part of the annual binational meetings with Mexico. However, when Friends of the Earth requested information from the EPA on their involvement with the United States-Mexico Binational Commission, EPA totally denied our Freedom of Informa-

tion Act request. Closing the door to public involvement and information is a poor policy choice.

We have included a legal summary of NEPA compliance and trade agreements and we find that the absence of NEPA compliance to date is a fundamental and perhaps fatal flaw in the trade negotiation process. NEPA compliance on international treaties has been carried out in the past by the U.S. Department of State in numerous instances. The forthcoming debate on a comprehensive free trade agreement provides not just an opportunity for environmental review, but an opportunity for both the United States and Mexico as well as Canada to bargain in good faith on a common future for our common environment.

In conclusion, we would urge that the subcommittee ensure that the environmental concerns are addressed from the onset in the negotiating process. Particularly we would ask that the issues and the concerns outlined in the attached environmental agenda to our statement be incorporated in instructions given to the USTR for negotiations.

Finally, the subcommittee should take an active role throughout the negotiations. We would urge the members to monitor closely the negotiations as they unfold and to ensure that citizens have wide access to information about the negotiations. The subcommittee should ensure that an environmental impact statement, as mandated by NEPA, be undertaken concurrently with the negotiations and delivered to Congress along with the final agreement. Without such documentation, the United States and its trading partners will be ill-prepared to address the real impacts of international trade.

We thank you for your time, patience, and the opportunity to present our views.

[The prepared statement and attachment follow:]

FRIENDS OF THE EARTH
Environmental Policy Institute
OCEANIC SOCIETY

STATEMENT OF DAVID E. ORTMAN
ON BEHALF OF FRIENDS OF THE EARTH, NATIONAL WILDLIFE FEDERATION
AND THE TEXAS CENTER FOR POLICY STUDIES

BEFORE THE SUBCOMMITTEE ON TRADE
COMMITTEE ON WAYS AND MEANS
UNITED STATES HOUSE OF REPRESENTATIVES

ON A COMPREHENSIVE NORTH AMERICAN TRADE AGREEMENT

FEBRUARY 22, 1991

Mr. Chairman and Members of the Subcommittee:

My name is David E. Ortman, Northwest Representative of Friends of the Earth. Friends of the Earth is a national, nonprofit environmental organization founded in 1969. In 1989 we merged with the Oceanic Society and the Environmental Policy Institute. We have affiliated organizations in 43 countries and work on a wide range of national and international environmental issues.

We commend the Subcommittee for holding this timely set of hearings on the proposed comprehensive North American trade Agreement. We appreciate the opportunity to present these comments today on behalf of Friends of the Earth, The National Wildlife Federation and The Texas Center for Policy Studies.

INTRODUCTION

We cannot support the comprehensive North American trade agreement and the "fast-track" procedure proposed by the Administration at this time. The environmental effects could be tremendous and long-lasting. Yet, Members of this Committee, the general public, even the agreement negotiators, do not have the benefit of a detailed analysis of its potential effects on the environment and environmental policy.

Crucial environmental analyses simply have not been performed. Furthermore, approval of the fast-track procedure by this Committee may guarantee that such analysis is never performed. It may also assure that environmental concerns are never addressed in the negotiations process.

Friends of the Earth believes that a thorough environmental assessment should be performed pursuant to the requirements of the National Environmental Policy Act of 1969 (NEPA). In addition, we believe that Congress should not compromise its influence in the negotiations process. If it does, important environmental policies and standards could be undermined severely.

We should emphasize that we do not necessarily oppose a comprehensive trade agreement. Rather, we are concerned with the process and the potential content of an agreement which may preclude important environmental safeguards.

ENVIRONMENTAL EFFECTS OF A COMPREHENSIVE NORTH AMERICAN TRADE AGREEMENT

In the past, the Administration has negotiated trade agreements without considering environmental impacts. In our view it is critical that Congress consider these impacts in the context of a comprehensive trade agreement.

Threats to the Border Environment

A limited experiment with free trade is already underway between the US and Mexico and the environmental effects are severe. The Maquiladora "Free Trade Zones" offer painful examples of the environmental problems of free trade.

Established in 1965 to attract jobs along the US-Mexico border, the maquiladora industry has caused severe damage to the environment on both sides of the border. Attracted by cheap labor, lax environmental regulations, and minimum taxes, the predominately US maquiladora industries (1,757 in 1989) have created devastating environmental and social consequences. Further free trade may exacerbate these practices.

Poor environmental controls have contaminated the drinking water of US and Mexican citizens. In San Elizario, Texas, for example, a shared aquifer has been contaminated and 35% of the children contract Hepatitis A by age eight, while 90% of adults have it by age 35. Moreover, recent tests on both sides of the border at Nogales, Arizona indicate groundwater contaminated with high levels of cadmium, chromium, arsenic and other chemical pollutants released by the Maquiladoras.

For the past two decades, over 95% of these industries could not account for their hazardous wastes as required by law, and few have implemented Spanish language programs to train employees about the risks of hazardous materials (Border Ecology Project, 1988). The Border Ecology Project also has found that, due to groundwater contamination by common solvent used in these factories, residents of Sonora depend upon contaminated drinking water.

Surface waters have been severely impacted as well. The New River, which flows from Mexico to California, has been declared a health hazard by the California Regional Water Quality Control Board because of its high level of human and industrial wastes. The wastes have killed animal life and have contributed to the high levels of water-borne diseases such as typhoid, hepatitis and diphtheria.

Excessive air pollution from the maquiladora industries also is well documented. The U.S. National Park Service has stated that "emissions from industrial areas near Monterrey, Mexico significantly impacts Bid Bend and Guadeloupe Mountains National Parks, and as far north as Grand Canyon, Arizona."

"Harmonization" or Preemption of Environmental Laws

A comprehensive North American trade Agreement could undermine US environmental laws established by Congress, state or local governments. The Agreement could force weaker environmental standards under the guise of "non-tariff barriers" to trade.

The recently negotiated US-Canada Free Trade Agreement provides a number of revealing examples of how environmental standards can be threatened, many of which have been documented by Steven Schrybman of the Canadian Environmental Law Association.

The Canadian government recently challenged the U.S. Environmental Protection Agency's asbestos regulations under provisions of the Free Trade Agreement. In 1989, EPA announced new regulations to begin a phase-out on the production, import, and use of asbestos over seven years. The Canadian government, in turn, challenged the regulations as an unfair barrier to trade. The case presently is pending in the Fifth Circuit Court of Appeals.

Similarly, on the US side, non-ferrous metals industries have challenged Canadian pollution control programs to reduce acid rain pollution because these programs include loans and investment credits. Like the Canadian government's actions on asbestos, the US metals industry charges that the programs are unfair trading practices.

The US-Canada FTA itself mandated the weakening of environmental standards for pesticides in Canada. According to Chapter 7 of the FTA, the US and Canada must "work toward equivalent guidelines, technical regulations, standards, and test methods" for pesticide regulation. This requires that Canada change from a pesticide assessment process of demonstrating its safety, to the US risk/benefit analysis process, which approves 20% more active ingredients and over seven times as many pesticide products. One example of the difference in pesticide assessment is the herbicide alachlor, a probable human carcinogen which is banned in Canada, but is still licensed in the US because it is deemed that the benefits outweigh its risks.

Extraction of Natural Resources

International trade is critically dependent on the exploitation of natural resources such as minerals, lumber, oil, and fish. Exploitation of these resources, in turn, is controlled by a host of domestic laws aimed at conservation, pollution control, and mitigation of environmental impacts. A free trade agreement could undermine important domestic policies.

Mexico, for example, challenged the US under the provisions of GATT for its recent ban on imports of tuna caught with nets that also kill dolphins. Mexico charges that this is an "unfair" trading practice designed to protect the American tuna industry.

Similarly, under the provisions of the US-Canada Free Trade Agreement, US timber interests forced British Columbia to eliminate a provincially-funded tree planting program as an "unfair" development subsidy. In addition, according to a 1989 article in the Seattle Weekly, British Columbia is now concerned that the FTA could destroy its herring and salmon stocks.

THE EUROPEAN COMMUNITY EXPERIENCE

In November 1989, the European Commission published a study of the environmental effects of the implementation of the Common Internal Market in 1992. While the Europeans are undertaking a more ambitious project than the proposed comprehensive North American trade Agreement, their preliminary analysis is a sobering confirmation of the environmental dangers of trade agreements.

The task force explored a wide range of effects, the most significant of which was the increase in transportation that would result from greater trade. The task force concluded that the Common Internal Market would increase interstate truck transport in the EC between 30 and 50 percent. According to the task force, "the growth impact of the Internal Market is likely to cause atmospheric emissions of SO2 and NOx to increase respectively by 8-9% and 12-14% by 2010."

While geographic differences between North America and Europe mean that these results cannot be translated directly, a dramatic expansion of truck traffic along the U.S.-Mexican border seems inevitable. Some analysts even expect a doubling of that trade by the turn of the next century as a result of the comprehensive North American FTA. The resulting pollution could be significant. The Environmental Protection Agency has just taken a major step to try to improve visibility in the Grand Canyon. These measures may be overwhelmed by a hastily-concluded trade agreement.

With the inclusion of Canada, one can reasonably expect growing transport across the U.S. to Canadian markets as well.

The overall increase in transport would not only have effects on SO2 and NOx emissions, but would also increase emissions of CO2, the principal greenhouse gas.

The task force goes on to conclude that in the European case:

> "Without proper incentives, energy demand (and corresponding pollution) appears to be positively correlated with additional economic growth. The main policy lesson of the energy shortages of 1974 and 1979 may be that a proper incentive, such as higher energy prices, is critically important in breaking the link between economic growth and energy consumption. Only if the scarcity of natural resources is properly reflected in the use of price incentives and/or regulations, will economic growth associated with the completion of the Internal Market lead to overall economic efficiency."

In short, the task force concluded that, without compensatory measures, the energy-related air pollution effects of their Common Market will be severe. Unfortunately, the Common Internal Market was well under way when this report was concluded and our European colleagues tell us that the EC is only capable of implementing a few ad hoc compensatory measures between now and the completion of the program in 1992. The U.S., Mexico, and Canada, if they took the time to consider these effects carefully, might be able to avoid such shortsighted policy making.

The task force report also points to some other dangers of trade and investment liberalization that North Americans would be well advised to consider carefully. In particular, the nations that are cobbling together a Single Europe are at rather different levels of development -- Germany being typical of the more developed 'North' of the EC, with Greece and Portugal being the less-developed 'South'. The task force is gravely concerned that investment in the South, both from private sources as well as official EC Structural Funds, will continue to be environmentally unsound. They conclude that:

> Such investment can avoid severe negative environmental impacts if - and only if - an appropriate environmental management system is in place which guides investment to locations which can 'absorb' investment.

In North America, the border areas of Mexico and the US are approaching -- or have perhaps surpassed -- their environmental absorptive capacity. An environmental management system will be a necessary part of a sound trade agreement but without even a baseline impact assessment, such a system cannot be crafted.

Finally, the task force points out that while the knitting together of the Single Market will force some member states to meet higher environmental standards, the incentive for trading partners outside the block, "will be to keep costs low and gain a competitive advantage by not investing in pollution control measures." Therefore, the report says, "Aid packages and trade agreements should envisage some minimal level of environmental protection in producer countries, and a programme of technology transfer will need to be implemented."

Two things are clear from Europe's experience. First, trade agreements and other market liberalizing measures do have profound environmental effects. Second, these agreements must include environmental compensatory measures in order to avoid having trade be founded on competitive destruction of natural resources. In North America, we believe that all three partner countries must take substantial national steps to avoid this unfortunate development. And, given Mexico's overall less-developed economy, we believe there will also have to be a substantial direct transfer of funds and technical assistance from Canada and the United States to Mexico so that it does not exploit its environment or the health of its people.

THE NEED FOR ENVIRONMENTAL ASSESSMENTS OF TRADE AGREEMENTS

In 1969, Congress passed the National Environmental Policy Act (NEPA) which recognized the profound impact of man's activity, including industrial expansion, on the interrelations of all components of the natural environment. NEPA requires that all "major federal actions" which "significantly affect the quality of the environment" include a thorough environmental assessment.

Yet, the Administration seems to ignore the potentially profound environmental effects of trade agreements. In Seattle in early 1990, for example, U.S. Trade Ambassador Carla Hills promised to double world trade in ten years but, in response to a question, dismissed NEPA requirements and potential environmental effects.

Unfortunately, no one in the Administration can tell this Subcommittee, or any Committee in Congress for that matter, what the environmental impacts of a comprehensive North American Trade Agreement are. We believe such answers are critical and believe that NEPA should apply to all trade agreements.

NEPA declared a national policy to encourage productive and enjoyable harmony between people and their environment. NEPA requires the preparation of environmental impact statements (EIS) for major federal actions. An EIS must address:

* local short-term uses of our environment and the maintenance and enhancement of long-term productivity; and,

* any irreversible and irretrievable commitments of resources which would be involved.

Both of these areas clearly are affected by changes in the rules of trade.

Amber L. Aranda, a Florida State University law student, prepared a review of NEPA compliance and trade agreements. We support her findings, and that of the Courts, that complying with NEPA and the Council on Environmental Quality requirements "guarantees that the relevant information will be made available to the larger audience that may also play a role in both the decision-making process and the implementation of [the federal agency] decision."[See, Robertson v. Methow Valley Citizen's Council, 109 S. Ct. 1845 (1989); Jones v. D.C. Redevelopment Land Agency, 499 F. 2d 502, 511 (D.C. Cir. 1974)].

The absence of NEPA compliance to date is a fundamental and perhaps fatal flaw in the trade negotiation process. The 1988 Trade Act delegated the authority to negotiate agreements on non-tariff barriers to trade to the President. The office of the United States Trade Representative (USTR) within the Executive Office of the President has the primary responsibility for developing and coordinating the implementation of U.S. international trade policy.

While CEQ regulations define "federal agency" to exclude the President and the performance of staff functions for the President in his Executive Office, this provision (CEQ, 40 CFR Sec. 1508.12) does not exempt the USTR and other cooperating agencies from fulfilling NEPA requirements. For example, the Office of Science and Technology within the Executive Office of the President was found, by the Courts, to have functions beyond merely advising and assisting the President [Soucie v. David, 448 F 2d 1067 (1971). Likewise, the D.C. Circuit Court found that the Office of Management and Budget within the Executive Office of the President was required to prepare an EIS under NEPA for an annual budget request for operation of the National Wildlife Refuge System. This decision was reversed, for other reasons, by the U.S. Supreme Court [Andrus v. Sierra Club, 442 U.S. 347, 99 S. Ct. 2335, 60 L. Ed. 2d 957 (1979)].

As federal actions by definition include treaties, and international conventions or agreements, there is no provision specifically exempting the USTR and cooperating agencies from fulfilling the environmental assessment requirements for proposals on trade positions for the comprehensive North American trade Agreement which may impact domestic territories. In fact, in 1978 the Department of State agreed to prepare an EIS on not only the domestic impacts of their participation in the Mexican herbicide spraying program, but an environmental analysis of the effects in Mexico, as well [National Organization for the Reform of Marijuana Laws v. U.S. Department of State, 452 F. Supp. 1226 (D.D.C. 1978)]

NEPA compliance on international treaties has been carried out in the past, by the US Department of State. Examples include: the U.S.-Panama Canal Treaties; the renegotiation of the International Convention for the High Seas Fisheries of the North Pacific Ocean; and the Interim Convention on Conservation of North Pacific Fur Seals.

CONCLUSION

In sum, trade clearly has a serious and potentially severe effect on the environment. We therefore urge this Subcommittee to take action to make sure that any proposed North American agreement is an environmentally sound one. Specifically, we urge that:

* The Subcommittee ensure that environmental concerns are addressed from the outset of the negotiating process. In particular we would ask that issues such as the concerns outlined on the attached environmental agenda be incorporated in instructions given to the USTR for the negotiations.

* The Subcommittee take an active role throughout the negotiations. We would urge the members to monitor closely the negotiations as they unfold and ensure that citizens have wide access to information about the negotiations. Also, the Subcommittee should demand that an Environmental Impact Statement, as mandated by NEPA, be undertaken concurrent with the negotiations and delivered to Congress along with the final agreement. Without such documentation, the U.S. and its trading partners will be ill-prepared to address the real impacts of international trade.

Thank you for the opportunity to present our views.

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ENVIRONMENTAL CONCERNS RELATED TO THE THE U.S.-MEXICO-CANADA FREE TRADE AGREEMENT (FTA)

(February 6, 1991)

What follows is a list of environmental concerns related to the proposed FTA to be negotiated between the United States, Mexico, and Canada. Some of these concerns relate to the process by which the FTA will be negotiated. Others relate to the scope of the agreement. A third somewhat distinct category of concerns are those that might be included in the FTA as part of a social and environmental charter.

A wide variety of organizations, representing not only the environmental community but also consumer and family farm interests, have provided input into the development of this list. The list will be refined as further information about the FTA becomes available.

ENDORSING ORGANIZATIONS:

Arizona Toxics Information
Community Nutrition Institute
Fair Trade Campaign
Friends of the Earth-U.S.
Institute for Agriculture and Trade Policy
National Family Farm Coalition
National Toxics Campaign
National Wildlife Federation
Natural Resources Defense Council
Pollution Probe-Canada
Texas Center for Policy Studies

ENVIRONMENTAL CONCERNS RELATED TO THE PROCESS BY WHICH THE FTA IS NEGOTIATED

o An environmental assessment of the agreement, following NEPA guidelines, should be performed in the United States. It should include an assessment of environmental impacts created on both sides of the Mexico-U.S. border and include an assessment of all available options including the "no-action" option. It should also suggest alternatives to prevent or minimize identifiable impacts. Assessments should be conducted by the relevant environmental agencies in Canada and Mexico as well.

o Public hearings in the United States, directed to airing environmental concerns related to the FTA, should be conducted as soon as possible. Public hearings should be held in Canada and Mexico as a condition for going forward with the negotiations.

o A long-term management plan, such as that currently being developed by the European Community, should be developed for dealing with the environmental problems that will be set in motion by the increased investment, transportation, and natural resource use inspired by the FTA. The three signatories to this agreement should work together to develop and implement this plan which can serve as a model by which to guide long-term economic integration of the three countries.

CONCERNS RELATED TO THE SCOPE OF THE AGREEMENT

o Funds must be included as part of this agreement for the institutional strengthening and monitoring activities of SEDUE, the Mexican environmental agency, as well as for the necessary infrastructure (e.g. sanitation and sewage systems) to accomodate the growth of Mexican industry, particularly the growth of foreign-owned companies in Mexico. Such funds might come from contributions from private industry, increased bilateral aid programs, and/or cancellation of an increased portion of public external Mexican debt to be reinvested in these areas.

- Intellectual property proposals should be off the table unless an effort is made to consider how such proposals can be tailored to promote a sustainable management of genetic and biological diversity, from which many of the patentable products to be sold in Mexico are to be derived. The value of in situ management of these diverse resources should also be recognized as part of an improved intellectual property agreement.

- Direct investment in Mexico's oil resources (i.e. foreign ownership of these resources) should be off the table. Increased investment in other aspects of the Mexican oil industry should be linked to a Congressionally-approved U.S. national energy policy based on increased efficiency and development of environmentally sound alternative fuels. The FTA should not be used to further U.S. addiction to fossil fuel consumption.

- An improved, enforceable agreement on the use of shared water resources between the U.S. and Mexico should be included in the FTA that takes account of present and <u>future</u> demands on water use, and the impacts on water quality, generated by this agreement.

- Signatories to the agreement should agree to a plan of action for the eventual elimination of the imports and exports of hazardous waste, taking into account the relative capacity for different countries to deal with the disposal of these wastes.

CONCERNS THAT MAY BE APPROPRIATE FOR INCLUSION IN A SOCIAL AND ENVIRONMENTAL CHARTER

- Frequent and on-going disclosure must be made by firms in all sectors operating in Mexico of the environmental hazards associated with their production processes. In particular, disclosure must be made of the kinds, quantities, and risks associated with hazardous wastes and other hazardous substances used at and released from their facilities. Disclosure must be made to workers and communities where facilities are located, or who might be affected by these facilities. Similar disclosure requirements should be established in Canada and the United States if they are not already in place. Record-keeping systems must also be established that allow for public review.

- Firms operating in Mexico must reduce the amount and toxicity of hazardous substances that they use, and minimize the amount and toxicity of the wastes that they generate, and demonstrate publicly their use of best available technology and pollution abatement programs in their production processes. Similar requirements should be established in the United States and Canada if they are not already in place.

- Criteria that are established for foreign investment must include the requirement that technical and financial resources necessary to prevent or mitigate environmental damage, and protect human health, will be provided by the investor according to the principle of "polluter pays".

- Companies investing in another country must comply with whichever standards are stricter, either those of the host country or their own. Remedies must be established under U.S. law for action against U.S. companies that do not adhere to this guideline. Other possible actions against companies that violate this guideline might include revocation of trade privileges that their products enjoy. Another remedy must include the right of private citizens or public interest groups to sue these corporations for injuries to themselves or the environment, even in the case where the corporations are operating in a foreign country. For example, the agreement should explicitly provide that Mexican citizens and United States citizens who are injured or suffer property damage as a result of the operation of U.S.-owned operations in Mexico may maintain suit in the federal courts in the United States to seek recovery for such damages under U.S. law. The agreement should

also provide that the countries mutually grant free access to their court systems for redress of injuries.

o To assure proper enforcement of these rights and standards, a trilateral agreement should be concluded for monitoring of environmental pollution and resource degradation problems in the United States and Canada as well as Mexico. SEDUE, EPA, and the Canadian Department of Environment should jointly monitor transboundary environments for such problems as surface and ground water contamination and air pollution. The trilateral agreement should also lead to the establishment of a trilateral institution comprised of governmental, industry, and non-governmental representatives, that would have the responsibility of resolving environmental disputes related to trade not dealt with as part of the judicial process.

o The trilateral institution set up to resolve environment and trade disputes must have some measure of public accountability, and their deliberations must be made public.

o Any nation that fails to abide by international environmental or conservation agreements or standards should be subject to trade sanctions that are proportional to the short-term economic gain realized by that nation due to its violation of the agreement or standard (e.g. Mexico's failure to join CITES, the Convention on International Trade in Endangered Species, and perhaps a future reluctance on the part of the U.S. to pay so-called "carbon taxes" levied on polluting nations).

o Protection of environmental quality, the integrity of ecosystems, and maintenance of scarce biological resources should be explicitly recognized as legitimate aims of trade-related legislation. A country's right to use trade restrictive measures for conservation purposes should be explicitly guaranteed as part of the agreement.

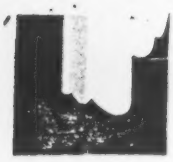
o If harmonization of health and food safety, and other environmental standards is sought, international standards should be viewed as minimum criteria which a nation is required to meet, but the power of each nation to exceed the international standards must be preserved.

o Local state and national governments must remain free to set the highest possible environmental standards that they deem to be appropriate. The FTA must explicitly guarantee this right.

o Signatories to the agreement must be prohibited from exporting products which are banned from sale domestically (e.g. pesticides).

o A country's right to assist its agricultural producers financially and technically to undertake a transition to more sustainable farming practices should be guaranteed in the FTA.

o Minimum occupational health and safety standards must be adopted and enforced in each signatory country.



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SELLING THE ENVIRONMENT SHORT:

[an environmental assessment of the first two years of free trade between Canada and the United States]

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SELLING THE ENVIRONMENT SHORT:

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Two years have now passed since the Free Trade Agreement was implemented and the environmental consequences of Deal are becoming apparent. This report offers an assessment of those consequences.

Introduction

On January 1, 1989, Canada and the US implemented a free trade agreement which, in the words of the President Reagan, represented an "economic constitution for North America". Ignoring commitments to integrated economic and environmental decision making, and notwithstanding its obvious and far-reaching implications, both governments entirely ignored the environmental implications of the new trade regime.

In fact Canada's Minister of the environment actually boasted that the issue of the environment never once came up during the negotiation of the trade deal. Apparently he hadn't read the Agreement because he need have gone no further than the index to learn that the trade deal was explicitly about energy, agricultural policies, forest management practices, food safety and even pesticide regulation, ie. matters that could not more directly affect the environment.

While the FTA assumed little prominence as a public issue in the US it became the subject of the most concerted public policy debate in recent Canadian history. One important aspect of that debate focused on the potential environmental consequences of the free trade regime. When confronted with the obvious contradictions between its commitments to integrating economic-environmental policy and planning on the one hand, and its indifference to the apparent environmental consequences of FTA negotiations on the other, the Canadian government dug in its heals and adamantly insisted that the trade deal would have no significant environmental effects.

This is how the Canadian government responded to a question about the trade deal's environmental impact :

> *"The free trade agreement is a commercial accord between the world's two largest trading partners. It is not an environmental agreement. The environment was not, therefore, a subject for negotiations nor are environmental matters included in the text of the agreement."*[1]

Because the government of Canada was steadfast in refusing to conduct an environmental analysis of the free-trade agreement a number of Canadian environmental groups decided to conduct their own[2]. In August 1988 the conclusions of that analysis were published in a report titled "*Selling Canada's Environment Short*" that was endorsed by over 90 Canadian environmental organizations from every region of Canada.

The groups' analysis of the FTA concluded that the trade deal would be likely to have profound and disastrous implications for the environment, and fundamentally undermine the principles of environmental protection and sustainable resource management. Because the deal would enshrine principles of deregulation, while encouraging the wholesale exploitation of natural resources, the report concluded that few if any environmental issues were likely to be untouched by the agreement. Its effects would be varied, wide-ranging and overwhelmingly adverse.

To date the impacts of the FTA have been most keenly felt in Canada. This is because of the dynamics of Canada-US economic and trade relationships. Canada's economy is predominantly resource based and it is dependent upon international trade for approximately 40% of its GDP. For these reasons the following analysis begins with an assessment of the environmental impacts of the FTA on Canadian natural resources.

PROMOTING ENERGY DEVELOPMENT AND USE

North Americans represent approximately 6 per cent of the worlds population. We consume more than 25% of its energy resources and our extravagant appetite for energy is notorious throughout the world. Given the overwhelmingly clear imperatives of global warming, our present energy policies are at best reckless and at worst, suicidal.

Moreover, Canada and the U.S. are becoming increasingly isolated in their recalcitrance to recognize the need for CO_2 emission reductions. While both countries stall efforts to establish international agreements to reduce greenhouse gas emissions, each pursues domestic energy policies that are intended to actually increase the use of fossil fuels. The FTA is now one of the principle instruments of those policies.

Here is what our respective governments have had to say about the Deal:

> *"our biggest (energy) problem is not shortage but abundance"*
> [Conservative Government briefing notes suggesting an answer to concerns about future Canadian energy security]

> *"true energy security lies in the vigorous development of our resources for both domestic use and export',*
> [Marcel Masse, Canada's Minister of Energy Mines and Resources, at an energy conference sponsored by the American Stock Exchange as reported by the Globe and Mail: "MASSE SAYS MEGA-PROJECTS WILL DOMINATE FUTURE OF CANADIAN ENERGY PRODUCTION", November, 6,1987]

> *The Canada-US Free Trade Agreement met an essential priority of US trade policy, "secure supplies of energy at stable and reasonable prices" by proscribing future "government interference" in energy trade*[3].
> [US Trade Representative, Clayton Yeutter]

An entire chapter of the FTA is devoted to deregulating North American energy development and trade. Under the terms of the FTA both countries forego the use of regulatory devices that could be used to control the development of energy resources for export markets[4]. In addition, subsidies for oil and gas exploration and development are given special status under the agreement and insulated from attack under the trade protection laws of either country[5]. Subsidies and other programs intended to encourage energy efficiency and conservation measures, are accorded no such protection.

The first and already observable effect of the deal has been to prompt a new round of energy mega-projects intended to serve US markets. For example, since the trade was

implemented export licenses have been granted for two of the largest energy projects in Canadian history. Both would be established in Canada's north and each will have far reaching and profound effects upon indigenous peoples and the northern environment. Given the scale of the projects of the enormity of the environmental impacts associated with them, it is unlikely that either would be proceeded with were they to located within the United States.

Natural Gas From the Arctic

One of these projects will involve extensive natural gas development in the Mackenzie Delta on the shore of Beaufort sea in the Canadian arctic. This $10 billion project which will involve the construction of 1200 mile long pipeline, one of the longest in the world, across arctic permafrost will have significant and adverse environmental effects for unique and fragile northern ecosystems. Production facilities would be spread over a large of area of the MacKenzie Delta, which is a major fish spawning, rearing and over-wintering area, as well as a migratory corridor[6]. The project which will be the biggest ever undertaken in the Canadian arctic, is being promoted by Canadian subsidiaries of Esso, Gulf and Shell - companies that vigorously promoted the FTA.

The export licenses for this natural gas that have been approved by the National Energy Board (NEB) will allow the companies to export approximately 87% of the natural gas reserves of the Mackenzie Delta. Moreover the licenses are for a 20 year period that may continue through the year 2020. While energy corporations argue that too little is know about global warming to warrant commitments to CO_2 reduction[7], they have no difficulty in seeking government approvals that will mean substantial increases in energy resource development and use. The companies also concede that the only rationale for Arctic gas development at this time is to serve export markets in the US[8].

It is impossible to reconcile a proposal that seeks to export approximately 87% of Mackenzie Delta gas reserves over a 20 year period, with any notion of resource conservation. Moreover there is evidence that Canada is already overproducing natural gas in a manner inconsistent with the imperatives of sustainable development. Canada is estimated to have about 2.5% of the Worlds natural gas reserves yet in 1987 it was third in terms of world output. As described by the Standing Senate Committee on Energy and Natural Resources in 1988,

> *"this indicates that Canada is overproducing its natural gas reserves relative to other major gas producing nations (with the notable exception of the United States, which held 4.9% of world proved reserves at year-end 1987 but produced 25.1% of world's gas [in that] year."*[9]

The responsibility to consider such export license applications rests in Canada with NEB. The regulatory authority of this agency was all but eradicated by the FTA[10]. On the only occasion that the NEB declined to approve natural gas export licenses, the US companies seeking those licenses quickly appealed to the Canadian Federal Court challenging the right of the NEB to say no[11]. The companies argued that Canada had no right under the FTA to prevent energy exports simply because the costs to Canada were greater than the benefits the country would derive.

In the face of this challenge, and confronted with concerted pressure from the US companies, the NEB simply backed down and agreed to effectively jettison its role for determining whether energy export license applications were in Canada's interest. Instead the Board would only examine proposed export contracts to determine whether they have "commercial substance" and:

> *" ... would generally presume that where contracts are freely negotiated at arm's length, they are in the public as well as the private interest and that the Board would intervene only in exceptional circumstances."*[12]

The effect of this astonishing abdication of responsibility to manage energy resources in the public interest simply gives over entirely to the "market" pre-emptive rights to determine the course of resource development in both countries. Through the FTA, market forces have become the ultimate, and only, arbiter of the public interest.

Electric Power From James Bay

The other energy mega-project that should be seen as a direct consequence of the economic and resource policies the FTA entrenches, is the James Bay hydro electric development in Northern Quebec. The litany of extreme and adverse environmental impacts that will occur if the this $50 billion development proceeds has been thoroughly documented by native Cree communities living in the area, by the Audobon Society and others.

Described by its proponents as the "Project of the Century", the James Bay II development will, when completed, produce a staggering 26,000 megawatts of power. It will involve massive engineering works that will reshape a territory the size of France, and will represent one of the largest engineering projects ever undertaken[13].

As is true for Mackenzie Delta gas reserves, the James Bay II project is being developed to serve export markets in the United States. Its proponent is the Province of Quebec, the only Canadian province to come out strongly in favour of the FTA.

In fact, so determined is the province of Quebec to proceed with the mega-project, whatever its consequences for the environment or indigenous people, that it has passed legislation to weaken the environmental assessment and public hearing requirements that would apply to the project[14]. When the NEB had the temerity to approve the export licenses subject to the condition that an environmental screening of the project be conducted before construction commenced, Quebec quickly filed a court application challenging the NEBs authority to do so[15].

Fuel to the Fire

The impacts of these energy mega-projects in Canada will be profound and are apparent. Less obvious, but no less significant, are their impacts in the US:

> Guaranteed access to Canada's energy resources will prolong the inefficient use of non-renewable resources by forestalling the impacts of declining US energy reserves.
>
> By assuring that the environmental impacts associated with large scale energy developments occur in Canada rather than in the US, one of the most important impetus for conservationist policies in the US is held at bay.
>
> Flooding the US market with cheap natural gas and electricity will displace conservation and efficiency investments that might have otherwise become cost effective.

While the impacts of the FTA will in many ways be felt differently in Canada and US, it is important to underscore the global implications of enshrining wasteful and destructive North American energy policies. By limiting the right of governments to regulate the development of natural resources, or to control that development to accomplish environmental objectives, the trade deal has undermined critical opportunities to accomplish goals that are necessary to confront ecological crises so severe as to put at risk the very prospects of human society.

MINING THE FORESTS

Since the implementation of the Canada US FTA their has been a virtual explosion of proposals to establish large scale logging and pulp operations in Canada. Virtually all of the proponents of these projects are transnational corporations based in the US or abroad. The implications of these projects for the prospects of sustainable forest management practices in Canada are disastrous.

The degree to which the FTA has influenced this enormous interest in exploiting Canadian forests is difficult to ascertain. It is not unreasonable to suspect however that the FTA is playing an important role because Chapter 4 effectively precludes Canada from controlling the rate at which logs or pulp leave Canada for the US.

Paper Recycling Laws

In one important respect however the FTA has already emerged as a potential mechanism to defeat resource conservation initiatives, in the form of recycling laws, that favour the use of recovered materials over virgin resources. This is true because the Canadian pulp and paper industry has urged Canada to challenge US recycling laws that require the use of recycled fibre in newsprint. As put by the Conference Board of Canada, a Canadian business think tank:

> *"From the viewpoint of the Canadian pulp and paper industry, it [referring to US recycling legislation] is viewed as a .... disguised non-tariff barrier to trade because Canada does not have the supply needed of recycled fibre to maintain market share in the United States."*[16]

The same sentiments have been expressed by the Canada's largest pulp and paper company in correspondence urging Canada to dispute newspaper recycling laws as a ploy of US newsprint producers seeking to gain competitive advantage[17]. Similar concerns have been expressed about the future of Canadian metal exports if the US adopts metal recycling laws[18].

As we move from an era that promoted the throughput of natural resources, to one that encourages more sustainable economic and resource management practices, such as reuse and recycling, we will confront the vested interests, and enormous influence, of very large corporations that exploit natural resources. It is entirely likely that the FTA will become the principle instrument to perpetuate the status quo and frustrate progress towards more sustainable resource policies.

OPEN SEASON FOR FISHERIES

As is the case for many countries, both Canada and the United States have fundamentally depleted fish stocks to such an extent as to threaten the long term sustaining capacity of these vital resources. One of the consequences of this mismanagement has been a crisis for Canada's fishing industries and the government is now scrambling to establish fish conservation programs that will allow these aquatic resources to be re-established and properly managed.

The first trade dispute to be adjudicated under the FTA involved a challenge, by the US, to Regulations under Canada's Fisheries Act established to promote conservation of herring and salmon stocks in Canada's Pacific coast waters[19]. This particular conservation program required that all fish commercially caught in Canadian waters be landed in Canada for biological sampling, to deter false reporting and for in-season management. After reporting in this manner, US commercial fisherman were free to export to the US.

In the first decision to be released under the FTA, the Canadian regulations were deemed to be "incompatible with the requirements of Article 407 of the FTA." In deciding the case, the FTA dispute panel concluded that where a conservation measure had a trade-restricting effect it could be sustained only if it could be said to be "primarily aimed at conservation". Considering the Fisheries Act regulation the panel stated:

> *"an important reason for the specific rule requiring all salmon and herring to be landed in Canada was to make exports more amenable to data collection and this, in fact, is its principle effect."*[20]

Notwithstanding this finding however, the panel went on to hold that it is also incumbent upon the country seeking to justify a conservation program that may have trade restricting effects to establish that the program *"was established for conservation reasons alone and that no other means were available to accomplish those objectives"*[21]. Few conservation programs could satisfy these onerous criteria, and not surprisingly Canada's fish management programs failed the test.

As explained by Robert Morley, the executive director of the Fisheries Council of British Columbia:

> *"what the panel decision actually does is strike down a legitimate resource conservation scheme and recommend substitution of an expensive, loophole-laden, unmanageable dual reporting system."*[22]

The salmon and herring case illustrates that in a contest between environmental and trade objectives, the former is not likely to come out the winner even when the effects on trade are tangential or secondary. Furthermore, because Article 407 applies to all natural resources, the implications of this important precedent for other conservation programs are disturbing.

The bias in favour of trade over environmental policy objectives, that is apparent in the "Salmon and Herring" case, is hardly surprising given the character and purpose of the dispute resolution processes established by the FTA. Simply stated, the purpose of these processes is to ensure the objectives of the FTA ie. the free flow of goods and commodities between the US and Canada. Moreover none of the institutions or agencies associated with this trade regime has a mandate, experience or interest in promoting environment objectives. When account is taken of the fact that FTA dispute resolution processes are singularly undemocratic, the prospects of the environment being recognized as an important priority seem remote at best.

FARMLAND AS AN EXPENDABLE RESOURCE

While most of us are aware of the successive economic crises to confront our farming communities, few are aware of the enormous ecological problems associated with current agricultural policies and practices. The tools with which we have transformed the farming industry - heavy machinery, mono-cultures, hybrid crop strains and chemicals - have precipitated a number of adverse consequences for soil fertility, water quality, public health and a viable rural economy. In the last 40 years we have lost much of the sub-soil structure of our most valuable farmland and have seriously threatened its sustaining potential as a "renewable" resource.

If an ecological recovery of agricultural lands is to be brought about two basic objectives must be accomplished. First, the economic viability of farm communities must be assured. There is no better paradigm for the notion of one generation holding resources in trust for the next, than the family farm. Secondly, agricultural policies and practices have to be re-oriented in favour of sustainable management approaches that must include much greater commitments to recycling organic wastes, using renewable sources of energy, applying ecologically derived cropping patterns and integrative pest control programs.

The Canada-U.S. FTA has undermined both objectives by adding to the economic pressures on agricultural industries to increase production at the expense of long term sustainability. By leaving farmers entirely at the mercy of market forces, the FTA has aggravated a serious economic farm crisis and will perpetuate the dynamics that are laying waste to our farmland.

Ice Cream and Yoghurt

One of the ways that the FTA is destroying Canada's farm economy, is by undermining the supply management systems upon which important agricultural sectors depend. Supply management allows a country to balance internal supply with demand thereby creating relatively stable markets and farm economies. By ameliorating the boom and bust cycles that characterize unregulated agricultural commodity markets, supply management can also play an important role in eliminating export dumping of surplus farm products. For supply management systems to work, a country must obviously have the ability to control imports of those agricultural commodities that it regulates.

While the Canadian government has attempted to conceal the fact from Canadian farmers, the FTA will mean the elimination of marketing boards and with them, Canada's ability to manage the supply of commodities in important agricultural sectors, including the dairy industry. This is so because the FTA requires the elimination of tariffs on

agricultural commodities. While quantitative restrictions for processed agricultural commodities are ostensibly permitted under the FTA, they are not allowed under GATT.

This fact was made clear when Canadian import restrictions for ice cream and yogurt were successfully challenged by the United States under GATT[23]. The ability to assure markets for Canadian dairy products is essential for the viability of marketing boards. For this reason the ice cream and yoghurt decision fundamentally undermines the viability of Canadian supply management systems. While the instrument of the attack on Canadian supply management programs for dairy products was in this case a challenge under GATT, it is important to recognize that the challenge would have never arisen but for the obligation imposed by the FTA to abandon the tariffs Canada had traditionally used to protect these commodities.

Global Food Trade and Global Warming

The attack on supply management is but one element of the larger agenda of de-regulating trade that is being promoted by certain food exporting nations and transnational corporations involved in agricultural commodity trade. The free trade agenda promotes a vision of a world in which the food production is highly specialized and food trade carried on globally. The implications of this scenario for the food security of nations and other non commercial objectives are distinctly adverse.

The globalization of food trade requires that agricultural commodities be transported long distances and be processed and packaged to survive the journey. In addition to sacrificing quality for durability, this system of agricultural trade requires enormous inputs of energy. In fact three times as much energy is used in processing, packaging and transporting food as is used to produce it. In the United States agriculture has historically used more energy and more petroleum than any other industry.

There is now widespread agreement among the international scientific community that very substantial reductions in energy use are necessary to avert the most pressing ecological crisis to ever confront our civilization. It is clear that any system of agricultural production and trade that relies upon massive energy inputs can not be continued. This is quite apart from the absolute folly of tying the long term productivity of what should be renewable resource, farmland, to an non-renewable resource, fossil fuels.

There are several ways in which modern agricultural practice effects global warming. However, the energy implications of globalizing food trade has not commonly been recognized as an important inter-relationship. It is quite clear however that by encouraging global trade in agricultural commodities, free trade will actually increase the energy demands of agricultural production. Thus as Canada and the US debate the merits of CO_2 reductions, they pursue agricultural trade policies that fundamentally undermine our ability to achieve that objective.

CLAMPING A LID ON ENVIRONMENTAL REGULATION

Environmentalists predicted that the FTA would undermine efforts to establish more effective environmental regulations and programs. Two years after implementation it is clear that the FTA has become a new and significant impediment to progressive environmental regulation in several ways.

Environmental Regulations as "Unfair Trade Practices"

By characterizing national environmental laws as non-tariff barriers to trade, opponents of environmental and workplace health and safety regulation have created an potent new weapon with which to assail these important initiatives. It didn't take long for US and Canadian business interests to persuade their governments to use the FTA to assail environmental programs in both countries.

US EPA Asbestos Regulations

Putting the lie to their assertions that nothing in the FTA would interfere with environmental initiatives, the Canadian government has recently relied upon the FTA to challenge US Environmental Protection Agency asbestos regulations.

In July 1989, the EPA announced that it was introducing regulations to phase out the production, import and use of asbestos over seven years. The ban represented the culmination of over ten years of struggle that had involved, several Congressional investigations, 45,000 pages of analyses, comments and testimony and thousands of lives[24]. Mr. Reilly, the US EPA administrator, estimated that the ban on this cancer causing material could save 1900 lives by the turn of the century[25]. No sooner was the program announced than it was angrily denounced as being insincere and politically motivated. Leading the charge was the government of Quebec, a Canadian province with a substantial stake in asbestos mining. A Quebec labour leader went so far as to warn other countries "not be duped by the phoney concerns" of the US administration[26].

Intervening to assert the interests of the Quebec asbestos mining industry, the government of Canada has joined in a legal challenge to the US EPA initiative. In its brief to the US Court of Appeals for the Fifth Circuit, Canada argues that US asbestos regulations under the Toxic Substances Control Act violate US obligations under GATT and FTA and makes the following argument:

Moreover under Article 603 of the Canada-U.S. FTA the parties may not adopt standards-related measures that create unnecessary obstacles to trade. Unnecessary obstacles are deemed not to be created if the measures achieve "a legitimate domestic objective". While the protection of human life or health is a legitimate domestic objective, Canada submits that to the extent that the EPA rule bans the importation of products that not cause unreasonable risks to life or health, the rule is not necessary to achieve a legitimate domestic objective, and therefor runs counter to U.S. FTA commitments.[27]

The case has yet to be resolved, but if US asbestos regulations are successfully challenged as being at odds with US obligations under GATT and FTA it will not be the first time that a legitimate domestic environmental program succumbs to such a challenge. For example Canada and the EC successfully used the GATT to challenge a US Superfund Act (1988) tax on petroleum[28], and the EC has recently prevailed with similar arguments to assail Danish waste reduction laws requiring that all beer and soft drinks be sold in refillable containers[29].

Canadian Acid Rain Controls

In a similar vain the US non-ferrous metals industry has used a provision of the US legislation implementing the FTA to challenge Canadian pollution control programs which include loans and investment credits. The Non-Ferrous Metals Producers Committee (NFMPC) has assailed, as unfair trade practices, a variety of federal and provincial programs intended to reduce emissions from, and improve workplace safety in, several Canadian lead zinc and copper smelters. The US Trade Representative has determined that there is "a reasonable likelihood" that this complaint is well founded and investigated these Canadian pollution control programs[30].

Were the NFMPC position to prevail, Canada might choose to abandon these environmental programs rather than face retaliatory action. It was precisely this path that the Province of British Columbia recently chose when it abandoned reforestation programs that were regarded by the U.S. forest industry as representing unfair subsidies to their competitors in Canada.

Of course some environmental and resource conservation initiatives will influence the trading or competitive position of local businesses, some may even provide a relative competitive advantage. What is so problematic from an environmental perspective is the notion that, anytime an environmental program helps rather than hinders the competitiveness, it then becomes suspect and vulnerable to challenge as an unfair trading practice. It is a proverbial "Catch 22" to allow only environmental initiatives that hurt the international competitive position of the business community while at the same time denying countries the right to protect those same businesses from the advantage that foreign competitors may gain from being subject to no similar regulation.

Irradiated Food and Lead Solder

More insidious than the effects of direct challenges to environmental programs or regulations is the chilling effect that can be exerted simply by the prospect of such a challenge arising. Governments are keenly aware of the potential implications of new regulatory initiatives and have a strong inclination to accommodate corporate interests before the point of confrontation is reached. In many cases, regulators will simply anticipate and avoid the prospect of confrontation by not putting forward initiatives that will provoke a strong response from powerful and influential corporations or business associations[31].

For example, Canada's Department of Consumer and Corporate Affairs has responded to Canadian environmental groups which advocate labelling for irradiated food that is more explicit than has been adopted in the US, with the following:

> *It is recognized that the labelling requirements of Canada and the USA may need to be further coordinated to avoid a potential non-tariff trade barrier."*[32]

Similarly, the Federal Department of Health and Welfare Canada has rejected demands for more stringent lead in food guidelines, that would restrict the use lead soldered seems in food containers, arguing that such an initiative could be challenged as an unfair trade practice[33].

It is important to recognize that for every time a regulatory official is willing to candidly admit that some real, or perceived, trade constraint has influenced his or her judgment about the viability of a particular regulatory measure, there are undoubtedly many more occasions when these considerations remain unarticulated.

Where the Environmental Cost of Doing Business is Cheapest

Another way in which the principles of free or deregulated trade have operated to undermine environmental regulation is by making it easier for corporations to establish, or relocate operations to jurisdictions where the cost of doing business, including the cost of environmental regulation, is lowest. Not only do these dynamics discourage incipient efforts at environmental regulation in poorer nations determined to attract investment, but will as well create pressure for developed countries to reduce environmental standards to a lower, and more common, denominator.

Corporate polluters have often used the implied or explicit threat of disinvestment and plant closures to mobilize opposition to environmental protection and occupational

health regulation. As the Canadian Chemical Producer's Association has "explained" in response to proposals to establish worker and community "right to know" legislation:

> *It is a fact that if unnecessary or excessive costs are introduced unilaterally by any country, (or province), innovation and development will simply cease or be transferred to jurisdictions with a more favourable business climate. Should this happen in Canada, it would be quickly reduced to a warehouse for chemicals.*[34]

In the only GATT study to specifically address an environmental dimension of international trade the phenomenon is described this way:

> *".. polluting industries in the countries with the most exacting standards would thus become relatively less profitable, their expansion would slow relatively to that of corresponding industries, and there would be a tendency for these industries to move out of countries with relatively heavy direct costs of pollution abatement..."*[35]

The negotiation of the Canada-U.S. Free Trade Agreement offered several illustrations of the corporate community making precisely these arguments. On the US side, the National Coal Association used the pending agreement as a rationale for calling for the removal of " regulatory disincentives " that stand in the way of new coal-fired power plants[36]. In Canada the Ontario Chamber of Commerce argued that air pollution regulation be 'relaxed" to enable business to compete in the free trade environment[37].

Because of free trade in hazardous waste at least one Canadian hazardous waste management company advertises the absence of stringent US liability requirements as an incentive to attract US business. When the US was considering strengthening hazardous waste export controls to require that other jurisdictions meet US standards before exports to that jurisdiction would be approved, the Canadian government became the principle lobby opposing the initiative[38].

Dramatic differences in the cost of environmental regulation exist with the Maquila or free-trade zones along the Mexican border. Several instances of industries moving to the Maquilas to escape costly regulation in the US have recently been documented[39] and this option promises to become increasingly popular if a tri-lateral free trade negotiations succeed[40].

A company that chooses to achieve a competitive advantage at the expense of the environment will run no risk of running afoul of the FTA because a failure to regulate could not be challenged under the FTA as representing a subsidy. In fact the export of polluting industries to less regulated jurisdictions is not perceived by the GATT study as at all a bad thing:

> *".. It would not seem desirable for any country to adopt measures designed to stem such flows of investment and trade as might result from international differences in pollution control norms."*[41]

The Lowest Common Denominator of Environmental Regulation

With two exceptions the Canada US FTA is silent on the subject of environmental standards. Those exceptions concern technical standards at the Federal level (Chapter 6) and pesticide and food safety standards (Chapter 7). In each case the provisions of the FTA are intended to promote the harmonization of standards, testing procedures and regulations. The question that arises of course is whether harmonization requirements will raise or lower standards to a new common denominator.

Apart from the economic pressures created by deregulated trade that militate in favour of the lowest common denominator of environmental protection, the specifics of harmonization proposals strongly reinforce this tendency.

Pesticides

For example,Schedule 7 to chapter 7 of the FTA specifically concerns pesticides regulation. It provides that the U.S. and Canada must "work toward equivalent guidelines, technical regulations, standards and test methods" for pesticide regulation. In particular, Canada undertakes to work toward equivalency in "the process of risk/benefit assessment". In Canada pesticides are licensed pursuant to the provisions of the Pest Control Products Act which does not mandate risk/benefit analysis but rather places emphasis squarely upon demonstrating the safety of the pesticide in issue.

In contrast, U.S. pesticide legislation requires a balancing of risks and benefits. It is an approach that environmentalists have argued against for years. The differences between the U.S. and Canadian approaches are quite real. In the U.S. there are 20% more active pesticide ingredients registered for use and over 7 times as many pesticide products.

One pertinent example is the herbicide alachlor (lasso), a probable human carcinogen, which the U.S. continues to license, but is banned in Canada. Alachlor, which has been demonstrated to cause tumours in test animals has been found in both ground and surface waters across Canada. According to Health and Welfare officials the evidence of carcinogenicity was the most convincing they had ever seen for a pesticide. Yet the U.S. found that the benefits outweighed the risks of alachlor and continues to register it. Not surprisingly, the manufacturer has argued that Canada's licensing criteria should also be founded upon a risk/benefit assessment.

Creating a Ceiling for Regulation

The harmonization provisions of the FTA should be seen as part of a larger strategy being pursued by the U.S. and Canada to harmonize standards at an international level. The likely consequences of the harmonization requirements of the FTA are easiest to discern from the nature of those international proposals.

If these harmonization proposals succeed, the GATT would be amended so that food additive, pesticide residue and other food safety and environmental standards would have to conform to international norms. While the development of international consensus around environmental standards may be a desirable objective, there are several reasons to suspect that the intent of harmonization proposals is to undermine progressive environmental standards, while removing standard setting processes to institutions that are less accountable to the community and more amenable to corporate influence and control.

To begin with, harmonization proposals are being promoted by those who see them as a way to block initiatives to strengthen food safety standards in the US and Europe[42]. In addition, harmonization proposals explicitly seek to reduce food safety, and environmental standards to scientific propositions to be determined by international science panels. A consensus of international scientific opinion then becomes the necessary precondition for environmental regulation. Ethical and social considerations would not enter the equation. Furthermore, by assigning the task of standard setting to international panels, the prerogatives of elected and accountable institutions would also be diminished.

Finally, and perhaps most telling of the intent of present harmonization proposals, is the fact that they would operate as ceiling but not as a floor for environmental regulation. Thus any country that attempted to implement food safety or environmental standards that were tougher than international norms, and apply those standards to imports and domestic production, would risk suffering retaliatory trade sanctions.

It is in this respect that harmonization regimes may devastate the prospects for progressive environmental regulation. This is true because of the dynamics of environmental regulation - where progress occurs when one jurisdiction blazes a trail that others are then encouraged to follow. Thus environmentalists point to California's auto exhaust standards, Sweden's air pollution laws for waste incinerators, Ontario's curb-side recycling programs or Austria's packaging laws as demonstrable evidence that tougher environmental laws are possible and practical.

The effect of harmonization proposals that would establish a ceiling on environmental regulation would be to critically interrupt this fundamental dynamic of environmental regulatory progress. All countries would then move only when an international

consensus could be established about the need for a particular environmental standard. In most instances this will slow, if not entirely defeat, the establishment of progressive environmental regulation.

For those corporate interests that oppose environmental regulation the importance of preventing the trend setting initiative is well understood. For example, when Canada intervened to challenge US EPA asbestos regulations it did so as much to discourage other jurisdictions from following suit, as it did to protect export markets in the US. In the words of the Minister of Mines for the Province of Quebec:

> " (the) biggest fear is that other countries will follow the US example. The European Community ... could following the U.S. decision, adopt analogous regulation. We also fear the impact of the EPA decision on development projects in countries receiving American economic aid"[43]

Echoes of the harmonization argument also reverberate throughout the legal intervention by Canada that challenges EPA asbestos regulations as being unsupported by an international scientific consensus[44]. If the new rule becomes that nations are only entitled to move forward with environmental initiatives in lock-step, the prospects of meaningful environmental progress dwindle to insignificance.

Behind Closed Doors

The final way in which the principles of free trade defeat environmental initiatives is by providing a means to circumvent the accountable and democratic institutions that are increasingly willing to respond to public pressure to protect the environment and conserve resources. Trade negotiation and dispute resolution processes are notoriously secretive even by the norms of international diplomacy. Thus by characterizing environmental regulation as a non-tariff trade barrier, it can be removed to a less public and more sympathetic forum. The result is a de facto deregulation of process, which effectively erodes the prerogative of democratic and accountable institutions, to consider and legislate matters of vital public policy.

Negotiations between the US and Canada will soon be under way to implement the harmonization provisions of the Agreement. The results will significantly influence packaging-related standards, workplace health and safety regulations and other matters that have considerable environmental significance. Advisory committees have already been established to assist with those negotiations, [45] but as is true for present GATT negotiations, no environmentalists are participating in these discussions, nor have they been invited to do so[46].

CONCLUSION

This assessment of the environmental consequences of the first two years of free trade between Canada and the US is unfortunately far from complete. One of the consequences of this new trade regime has to re-introduce the era of back room negotiations that use to characterize government-corporate relations concerning environmental and resource management issues. For this reason many of the influences the FTA are difficult to identify or track.

Specific examples of the adverse environmental impacts of the FTA are of course very helpful in revealing the relationships between the environment and trade. However it is the structural and economic realities of free trade that will give rise to its most serious and adverse environmental impacts. To understand these cause and effect relationships it is important to recognize that many of the environmental issues we confront are the symptoms, and not the causes, of unsustainable economic and resource policies. For example: we will never win the battle of to reduce pesticide use unless we confront the agricultural and trade policies that make the use of pesticides inevitable. The same can be said of virtually all of the pollution battles we are waging.

The first step then, is to develop an understanding of the structural relationships between international trade and environmental and other issues. The second is to insist that no trade policy be adopted unless its environmental consequences have been thoroughly assessed. Here, the evidence strongly indicates that an objective appraisal of the environmental consequences of free trade will cast into great doubt, the ecological viability of the precepts of liberalized, or de-regulated trade.

The next step is to develop the alternatives. How would trade agreements be negotiated if negotiations are to occur in a democratic and accountable manner? How can the rules of international trade be crafted to encourage, rather than diminish, the principles of environmental protection? What would international trade relationships be like if they were derived from the principles of sustainable and equitable resource policies?

endnotes

1. The federal Minister for International Trade in response to a question on the House of Commons order paper during the fall of 1987; see "FREE TRADING THE ENVIRONMENT" Frank Tester, in "THE FREE TRADE DEAL" Lorimer, 1988.

2. Efforts by Canadian environmental organizations to engage the interest of US environmental organizations in assessing the likely environmental consequences of the FTA were unsuccessful. The awareness now shared by many US environmental groups of the importance of environment-trade relationships was unfortunately not in evidence during 1988 when the campaign to force an environmental consideration of the Deals consequences was in full swing.

3. US President Reagan has made similar comments emphasizing, in his announcement of the bi-lateral trade deal, on October 4, 1987, that the agreement would "improve our security through additional access to Canadian energy supplies"; as quoted by John Dillon in "Continental Energy Policy", The Free Trade Deal, ed. Duncan Cameron, (Lorimer & Company: Toronto,1988).

4. Article 904 of the Canada-U.S. Free Trade Agreement explicitly prevents either government from restricting the export of energy resources, for any other than "national security" reasons, unless supplies are rationed, to the same extent, domestically. The important right under GATT rules to use export taxes as a mechanism for resource management and conservation, is abolished by the agreement. For example, compare with Article XX of GATT. Bill C-130, that implemented the Agreement in Canada, abolishes a central tenet of Canadian energy policy and compels the National Energy Board (NEB) to issue an export licence even in the face of Canadian shortages. While the NEB may attach terms and conditions to its approval in order to mitigate environmental impacts - it can not refuse a license for environmental reasons.

5. Article 906 provides: "Both parties have agreed to allow existing or future incentives for oil and gas exploration, development and related activities in order to maintain the reserve base for future energy resources." The only other category of government subsidy that is accorded this special status is defense spending.

6. Marbek Resource Consultants, A Preliminary Assessment of the Applicants' Submissions to the Environmental Screening of Gas Export Licenses Issued Under GH-10-88, September, 1990.

7. For example, see Esso, Imperial Oil, A Discussion Paper on Potential Global Warming, March, 1990.

8. National Energy Board, Reasons for Decision GH-10-88, August 1989, p.1.

9. Standing Senate Committee on Energy and Natural Resources, Natural Gas Deregulation and Marketing (12th report)(September 1988)(Chair E.A. Hastings) at p.1.

10. Supra, fn.4.

11. Globe and Mail, Report on Business, "Bitter Dispute on Gas Exports Springing From NEB Decisions", January 15,1990.

12. NEB decision

13. Andre Picard, The Amicus Journal, James Bay II, Fall 1990.

14. Maude Barlow, Parcel of Rogues, How Free Trade is Failing Canada, Key Porter Books, Toronto, 1990, at p.162.

15. Le Procureur General Du Quebec -et- L'office National de L'energie, (application filed before the Court of Appeal for the Province of Quebec, October 26, 1990.)

16. Globe and Mail, Report on Business, Dennis Bueckert "Protectionism May Motivate Standards", Oct.9,1990.

17. The Globe and Mail, Report on Business, Terence Corcoran, "Risk of Trade War Wrapped in Recycled Newsprint", Jun.27,1990, quoting Adam Zimmerman, Chairman of Noranda Forest.

18. Idem.

19. In the Matter of Canada's Landing Requirement for Pacific Coast Salmon and Herring Canada - United States Trade Commission Panel, October 16, 1989, 2TCT 7162.

20. Idem.

21. Idem.

22. The Globe and Mail, Letters to the Editor, October 28,1989.

23. See Globe and Mail articles: "GATT Ruling Imperils Farming, Premier Says" Sept 21, 1989; "Canada and U.S. Haggle Over Dairy Import Duties at GATT Talks", Oct.12, 1989.

24. Wall Street Journal, Johnathan Dahl, "Perilous Policy: Canada Promotes Asbestos Mining, Sells Carcinogenic Mineral Heavily in Third World", Dec.9, 1989.

25. Globe and Mail, Report on Business, Andre Picard and Harvey Enchin, "Quebec planning to fight U.S. asbestos ban", July 7, 1989.

26. Idem.

27. See Corrosion Proof Fittings, et al., v. Environmental Protection Agency, and William K. Reilly: Brief Amicus Curiae of The Government of Canada, pp. 18-19. (In The United States Court of Appeals for the Fifth Circuit, May 22,1990).

28. OECD, Trade and the Environment: Issues Arising With Respect to the International Trading System, (Note by the Secretariat) Paris June 29, 1990. TD/TC (90)14.

29. Re Disposable Beer Cans: E.C. Commission v. Denmark; the European Court of Justice, September 20, 1988. Reported in [1989] 1 C.M.L.R. 619.

30. Gatt Fly, U.S. Companies Use FTA to Attack Regional & Environmental Aid, (Toronto, Septem - 1989).

31. Ted Schrecker, "Resisting Regulation: Environmental Policy and Corporate Power", Alternatives, Volume 13 Number 1, December,1985. Also see infra "Disinvestment and Job Blackmail".

32. Consumer and Corporate Affairs Canada, Communique no. 52, June 4, 1988.

33. In an interview by Nancy Dawkins of the CBC show "Marketplace" with Dr. Bev Houston, Chief of the Chemical Safety, Food Directorate, Health and Welfare Canada.

34. CCPA, Position Paper on Confidentiality, reproduced in Appendix C of Roundtable Discussion on Toxic Chemicals Law and Policy in Canada, Toronto, Canadian Environmental Law Research Foundation, 1981.

35. GATT: Studies in International Trade, Industrial Pollution Control and International Trade, (Geneva, July 1971), p.11.

36. National Coal Association, Statement on Behalf of the National Coal Association on The Canada-U.S. Free Trade Agreement, before the Energy and Resources Committee, United States Senate, April 21, 1988.

37. James Carnegie, general manager of the Ontario Chamber of Commerce, as quoted in Andrew Nikiforuk, Free Trading Our Environment, Nature Canada, 15(3) summer,1986, p. 40.

38. For one account of Canadian activities in this regard see Environmental Matters (Industry's Guide to the Issues, the Challenges and the Solutions) June 1990, EM10.

39. Furniture manufacturers flee .....

40. Los Angeles Times, Chris Kraul, "A Warmer Climate for Furniture Makers", May 14,1990.

41. Supra fn.35.

42. For example, Clayton Yeutter, Secretary of Agriculture for the United States Government, has characterized the European Economic Community's ban on growth hormones as a "clear non-tariff barrier" (in a letter to the Honourable Ray McSharry, Member, Commission of the European Communities, July, 1989). Mr. Yeutter is one the principal and outspoken advocates of proposals to harmonize sanitary and phyto-sanitary regulations.

43. Mines Minister Raymond Savoie, supra fn. 25.

44. Supra fn.27.

45. For example, negotiating teams are presently constituted to address standard harmonization for packaging. The results will have a significant bearing upon the ability of both jurisdictions to implement waste reduction initiatives. Yet no environmental group is represented, neither has any public notice been given of the exercise. Rather, negotiating teams are predominantly comprised of representatives of government and business (personal communication with Larry Dworkin, September 1989, who represents the Packaging Association of Canada on one of the packaging negotiating teams.)

46. The International Trade Advisory Committee (ITAC) which exists to advise the Canadian Government on GATT negotiations, includes no representatives of either environmental or consumer groups. See Canada, News Release Minister for International Trade Announces Make-Up of New International Trade Advisory Committee, No.179, Aug.17,1988.

Chairman GIBBONS. Mr. Harvey.

STATEMENT OF PHARIS J. HARVEY, EXECUTIVE DIRECTOR, INTERNATIONAL LABOR RIGHTS EDUCATION AND RESEARCH FUND

Mr. HARVEY. Thank you, Mr. Chairman.

My name is Pharis Harvey and I am the executive director of the International Labor Rights Education and Research Fund. On behalf of our president, the former Labor Secretary, Ray Marshall and the members of our board who represent business, labor, human rights, religious, and academic circles, I want to thank you for holding this hearing and for providing us the opportunity to take part in a discussion which will affect the future of every citizen in this hemisphere for decades to come.

The International Labor Rights Education and Research Fund is a nonprofit organization dedicated to ensuring that workers in all countries have the opportunity to work under reasonable conditions and are free to exercise their rights to associate, organize, and bargain collectively.

The fund devotes its activities to researching labor conditions in the United States and in foreign countries and challenging the unacceptable treatment of workers, promoting greater respect for worker rights internationally.

We speak today, Mr. Chairman, to urge the Ways and Means Committee to remove the fast-track negotiating authority for the proposed free trade agreement between the United States and Mexico. We are not opposed to trade with Mexico, per se, but we are concerned that an agreement that deals only with narrowly defined trade and investment rules may have serious adverse effects on the environment, on labor standards, on human rights, agricultural interests and consumers, both in the United States and Mexico and we therefore urge that any agreement be negotiated by a process that not only allows but encourages the fullest possible debate of these critical issues before it is concluded.

Fast-track authority and the terms requested by President Bush subverts this necessary process.

We have been told that the fast-track authority or rather the absence of fast-track authority would make it well nigh impossible to negotiate a free trade agreement with Mexico. That, Mr. Chairman, respectfully is nonsense. If the only way the administration can proceed with Mexico is by removing from the process the diversity of interests represented by the Congress, then negotiations should not proceed. If the only basis for an agreement is a cessation of power by Congress then it is a suspect agreement that is being contemplated.

Repeatedly this morning member of this committee asked for assurances that labor concerns would be part of the negotiation, that private sectoral interests would be fully involved in the negotiating process and that trade adjustment would be a part of the agreement. On each of these issues Ambassador Hills equivocated or refused to provide the assurance requested, finally taking refuge in the notion that environmental and labor standards were outside the competence of the U.S. Trade Representative to negotiate.

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If at this point the administration is not even prepared to admit the legitimacy of these issues, what is the basis for the belief that fast-track authority will somehow enable strong negotiations that will protect them in the long run.

If the USTR is not competent to negotiate on these matters, as it admits, then all the more Congress should not cede authority to the USTR to negotiate a treaty that ignores these matters.

We also urge you to insist to the administration that any negotiations must include the establishment of rules that link more open trade to the protection of the environment, to labor rights and standards and of other social concerns. This has been called in some circles a social charter. By whatever name, it is a means by which the social concerns of two countries or more that wish to increase their linkage, establish a base a ground level below which the standards will not sink as a result of that interaction.

As an organization committed to improving the conditions and rights of workers we recognize fully the importance of fair and equitable growth in Mexico. We are being told that the current government and its immediate predecessors have brought about a great economic miracle—cutting Mexico's federal deficit to 16 percent of GDP, privatizing vast parts of its inflated and unproductive government-owned industrial sector and lowering inflation from 185 percent to 29 percent. These are impressive achievements. But a high price has been paid for this progress by Mexico's poorest citizens. Average wages have declined by 50 percent during this same 8-year period. Malnutrition which was already a serious problem in Mexico has greatly worsened. Conditions of work place health and safety have become deplorable in the export as well as the domestic sector. The migration of the peasant population to the cities, the border areas and further northward into the United States in search of a means of survival grows more serious each month.

These negative changes have taken place simultaneously with measures taken by the Mexican Government to internationalize its economy, to reorient both agricultural and industrial production toward export markets and luxury goods for a minority and away from the production of consumable goods for an increasingly impoverished majority.

As Mexico's neighbors, the United States cannot avoid being hurt by the extreme poverty and depravation across our southern border. Illegal immigration, drug smuggling, environmental degradation and political violence are all related to the poverty of present-day Mexico and to the imbalance in our relationship.

A trade agreement with Mexico that ignores these problems in the rush to further liberalization runs the risk of worsening social conditions in both the United States and Mexico. We strongly agree with those who question the capability of the presently planned economically liberalization to alleviate these problems unless it is matched by reforms in areas that are not presently contemplated by either the current Mexican or United States Governments, such as agricultural reform, protection of human rights, and enforcement of labor and environmental standards.

The International Labor Rights Fund is concerned about three particular areas of problems. The first is the overall climate of po-

litical repression. Second, the absence of labor rights protections and third, working conditions and wages that are kept below acceptable standards.

Without dealing with the first, with political repression and establishing a climate of respect for human rights it is impossible to believe that progress in the latter two areas can be made. The most basic requirement for a treaty between our two countries is mutual respect for the rule of law. Despite the Salinas' government's highly publicized reforms, human rights violations continue in Mexico and according to international observers, are worsening. Recent events, according to American Watch, portend that rather than moving toward improvements in human rights conditions, Mexico may be heading for a period of increased violent abuses and repression of dissent. Problems include widespread use of torture in Mexico's prisons and an alarming increase in political violence.

Several dozen political and labor activists or peasant movement leaders have been killed during the past year alone. According to Amnesty International, at least 80 percent of all detainees are tortured in Mexico's jails. There remain some 533 cases of unsolved disappearances. That these human rights violations are not directed solely at Mexicans but at Americans and other foreigners as well should be of particular concern to United States citizens contemplating trade with Mexico. According to the State Department's recently released 1990 country report on human rights, the State Department has filed formal protests in some 60 cases of alleged torture of American citizens in Mexico during the last year. The Secretary of Foreign Relations of the Mexican Government has not confirmed any wrong doing by Mexican police or officials on any of those 60 cases.

We would submit that a free trade agreement with a country in which there were 60 outstanding complaints of torture of U.S. citizens in the last year alone is entirely inappropriate.

In addition to the abuses of the police and judicial system that lead to prisoner abuse and torture another human rights problem disturbing in the context of free trade negotiations is the corruption of the judiciary. It is universally accepted in Mexico that the judicial system functions with complete impunity and a total lack of accountability, which is corroborated even by the government's own human rights commission. It is also completely accepted that this corruption affects all cases before the courts without exception.

Finally there is much reason for alarm in the context of today's political violence that those in Mexico who have questioned the wisdom of a free trade agreement have, themselves, been subjected to repeated harassments and death threats.

This includes noticeably two highly respected Mexican intellectuals who stood at this table only 1 month ago to address questions about the free trade agreement. Both of whom have been subjected, since they returned to Mexico, to a nonstop government manipulated media campaign of abuse and harassment. A portion of that abuse, by the way, includes the charge that your distinguished colleague, Mr. Pease, is a present-day James K. Polk, presumably because he wants to invade Mexico with labor standards.

We believe that no negotiations should proceed and certainly not fast-track negotiations until basic human rights have been restored in fact, as well as rhetoric by the Salinas government.

Turning very briefly to labor rights I would ask that my full statement be made a part of the record.

Chairman GIBBONS. Without objection, it is so ordered.

Mr. HARVEY. Labor rights are almost non existent in Mexico. We have been told in testimony before this committee this morning that Mexico's environmental laws are up to our standards. This is true in spades for Mexico's labor laws and it is entirely irrelevant. On paper Mexico's labor laws are more protective of worker rights than those of the United States. Mexico's revolution was established on the basis of a worker's paradise, but in fact, those rights hardly exist. The reason for this disparity is that the state has so dominated the trade union movement by incorporating it into the ruling party apparatus that the official trade unions have given away all independence, have become isolated from the rank and file and have been corrupted into being servants of the state and its party.

Further, although the rights to associate, organize, and bargain are guaranteed in the constitution, the federal and state boards of conciliation and arbitration are allowed such latitude in determining whether unions are legal or whether strikes are justified, that in fact, few legal strikes ever take place. And when illegal strikes occur they are suppressed with massive force, including that of the military. This pattern which is decades old in Mexico persists today under the reformist government of Mr. Salinas.

Essentially this means that Mexican workers are systematically denied the most fundamental labor union rights, that is to organize and associate freely but are forced into government control and government related trade union structures. That union democracy is virtually nonexistent in Mexico and that the state and the labor federations conspire to assure that union democracy does not break out. That many Mexican official labor unions exist not to protect the unions members, but to protect the employers. There is a long history with many frequent and recent additions of protection contracts to employers by the labor unions, which in fact give the workers in a plant less protection than that which is afforded to them by the laws themselves.

Unions frequently collude both with Mexican employers and transnational corporations in order to rid the work place of reform minded workers.

Finally we are concerned that substandard wages and indifference to work place health and safety standards are not only incipient in Mexico but they are integral to Mexico's policy for attracting foreign investment. Mexico has lowered its average wages from one-third those of the United States in 1979 to less than one-ninth today.

The opening of the economy to foreign investment, particularly through the maquiladoras program has had, as yet, no upward effect on labor standards or on wage levels. In fact, quite the contrary appears to have taken place. In spite of large productivity gains in the maquiladoras wage levels have been stagnant for the last 10 years.

Why should we be concerned about these conditions? Leaving aside our moral responsibility to protect fundamental civil and labor rights in Mexico, a North American social charter which would address these conditions in the context and linked to trade is necessary to make economic integration with Mexico serve domestic U.S. interests as well. Without a social charter free trade with Mexico could undermine the United States economically, increase social instability and threaten our own commitment to democracy. From an economic perspective free trade in the context of continued labor repression in Mexico would force American workers to relinquish hard-won protections and wages in order to remain competitive. It would reinforce U.S. employers' well-documented tendency to rely on low wages rather than more productivity enhancing competitive strategies.

Continuation of labor conditions as they are now would also make it impossible for Mexican workers to share in the benefits of rising productivity and create a market for the goods they produce and the goods that we would like to sell them from the United States. Without an increase in workers' buying power and aggregate demand in Mexico, the United States will simply be replicating with Mexico its dilemma with Korea—that is vastly increased imports, the production of which did not generate sufficient income to increase exports from the United States to maintain a trade balance.

In Europe the potential for international economic integration to tear more advanced countries apart has been recognized in the development of a European social charter to accompany the 1992 creation of a single European market. By bolstering regional adjustment funds and implementing the charter the European Community aims to remove the distortion to competition associated with variations in labor and environmental standards. It also aims to strengthen the social cohesion of the Community, to gradually reduce variation in Community living standards thereby preventing a social and political reaction against inequality.

Some observers are arguing that EC 1992 requires a social charter because it creates an economic and political union. The United States and Mexico on the other hand are just proposing a free-trade area. We believe, however, that the need for explicit negotiation about continental variation in labor and environmental standards is demonstrably greater in North America than in Europe. This is true first because income disparities within North America far exceed those in the EC. While the living standards of the EC's richest 260 million people are about 2.5 times those of its poorest 80 million, the living standards of the 275 million United States and Canadian people are about 10 times those of Mexico's 88 million.

The need for a social charter is also greater in North America than Europe because United States and Mexican labor markets are more intertwined than those in the EC. Legal and illegal labor flows from Mexico to the United States are many times greater than actual or anticipated immigration from Spain, Greece, and Portugal to the rest of the EC.

Finally, in conclusion, Mr. Chairman let me urge the committee to stop the railroad. Reject fast-track negotiating authority and

open up the debate. Negotiate a social charter that charts a new path for the entire region and all its people. Much good can be accomplished by trade that enhances broad based development in all three countries. Much harm will be done if trade is allowed to worsen the exploitation of the poor, the rape of the environment or the suppression of political freedom.

I would like to ask also if it is possible to submit for the consideration of the members of the committee and for the record of the hearing a very profound, and I think thought provoking statement issued earlier this month by the leader of the Mexican opposition, Mr. Cardenas, in a speech given at the Americas Society in New York on February 8. Without taking time to read portions of that I would like to ask your permission to ask that that full statement be entered into the record.

Chairman GIBBONS. I see no reason why it should not be. Without objection, it will be done.

[The prepared statement and speech referred to follow:]

Prepared Statement
by
Pharis J. Harvey
Executive Director
International Labor Rights Education and Research Fund

before the
Hearing of the Ways and Means Committee
U.S. House of Representatives
on the Proposed U.S. - Mexico Free Trade Agreement
February 20, 1991

Thank you, Mr. Chairman. The International Labor Rights Education and Research Fund is pleased to be invited to participate in this important hearing about a subject that will affect the future of every citizen of this hemisphere for decades to come.

The International Labor Rights Education and Research Fund is a non-profit organization dedicated to insuring that workers in all countries have the opportunity to work under reasonable conditions and are free to exercise their rights to associate, organize and bargain collectively. The Fund devotes its activities to researching labor conditions in the United States and foreign countries, challenging the unacceptable treatment of workers, and promoting greater respect for worker rights internationally.

We speak today to urge the Ways and Means Committee to remove "fast track" negotiating authority for the proposed free trade agreement between the United States and Mexico. We are not opposed to trade with Mexico, per se. But we are concerned that an agreement that deals only with trade and investment rules may have serious adverse effects on the environment, labor standards, human rights, agricultural interests and consumers both in the United States and Mexico. We therefore urge that any agreement be negotiated by a process that not only allows but encourages the fullest possible debate on these critical issues before it is concluded. Fast track authority in the terms requested by President Bush on September 25, 1990 subverts this necessary process. In this concern we are joined by a number of other organizations, which along with ILRERF have attempted to open up this debate.[1]

We also urge you to insist to the Administration that any negotiations must include the establishment of rules that link more open trade to protection of the environment, of labor rights and standards and of other social concerns. This is necessary to prevent the erosion of those rights and standards here and the perpetuation of those abuses in Mexico.

As an organization committed to improving the conditions and rights of workers, we recognize fully the importance of fair and equitable economic growth in Mexico. We are being told that the current government and its immediate predecessors have brought about a great economic miracle, cutting Mexico's federal deficit to 16 percent of GDP, privatizing vast parts of its inflated government-owned industrial sector and lowering inflation from 185% to 29%. These are impressive achievements. But a high price has been paid for this progress by Mexico's poorest citizens. Average wages have **declined by 50 percent** during this same period. Malnutrition, already a serious problem, has greatly worsened. Conditions of workplace health and safety have become deplorable, in the export as well as domestic sector. The migration of the peasant population to the cities, the border area and further northward in search of a means to survive grows more serious each month.

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[1]The other organizations include: AFL-CIO, Amalgamated Clothing and Textile Workers Union, American Agriculture Movement, Arizona Toxics Information, The Center of Concern, Child Labor Coalition, Community Nutrition Institute, the Development Group for Alternative Policies, Fair Trade Campaign, Institute for Policy Studies, Mexico-U.S. Dialogos, National Consumers League, National Family Farm Coalition, National Safe Workplace Institute, National Toxics Campaign, National Wildlife Federation, Texas Center for Policy Studies, United Auto Workers, United Methodist Board of Church and Society, Washington Office on Latin America.

These negative changes have taken place simultaneously with measures taken by the Mexican government to internationalize its economy, to reorient both agricultural and industrial production toward export markets and luxury goods for a minority and away from the production of consumable goods for the increasingly impoverished majority.

As Mexico's neighbor, the U.S. cannot avoid being hurt by the extreme poverty and deprivation across our southern border. Illegal immigration, drug smuggling, environmental degradation, and political violence are all related to the poverty of present day Mexico and to the imbalance in our relationship. A trade agreement with Mexico that ignores these problems in the rush to further liberalization runs the risk of worsening social conditions in both the U.S. and Mexico.

We agree with those who strongly question the capability of the presently planned economic liberalization to alleviate these problems, unless it is matched by reforms in areas not presently contemplated by the current Mexican or US governments, such as agricultural reform, protection of human rights, and enforcement of labor and environmental rights and standards.

Let me emphasize again that we are not opposed to expanding trade between the United States and Mexico. We believe that is not only inevitable, but potentially good for both peoples, but only if it is conducted according to rules that prevent this trade from worsening the living standards and conditions of the working people of either country.

The ILRERF is concerned about three areas of problems -- an overall climate of political repression, the absence of labor rights protections, and working conditions and wages that are kept below acceptable standards. Without dealing with political repression and establishing a climate of respect for human rights, progress in the latter two areas is unlikely.

1. Human rights are deteriorating, not improving in Mexico.

Despite the Salinas government's highly publicized "reforms", human rights violations continue in Mexico, and according to international observers, are worsening. "Recent events," according to Americas Watch, "portend that rather than moving towards improvements in human rights conditions, Mexico may be heading for a period of increased violent abuses and suppression of dissent."[2] Problems include widespread use of torture in Mexico's prisons, and an alarming increase in political violence. Several dozen political activists or peasant movement leaders have been killed during the past year alone. According to Amnesty International, at least 80% of detainees are tortured. There remain some 533 cases of unsolved disappearances.

That these human rights violations are not directed solely at Mexicans but foreigners as well should be of particular concern to U.S. citizens contemplating investment or trade with Mexico. According to the State Department's recently released 1990 Country Report on Human Rights:

> "All U.S. Consulates (in Mexico) reported cases of abuse of U.S. citizens in 1990. A significant number of detainees alleged they were abused and tortured by law enforcement (and occasionally military) authorities, most often to obtain an admission of guilt. Overall there have been 97 complaints of police abuse by U.S. citizens throughout Mexico (through the month of September), an increase of 5 over the same period in 1989. ... The U.S. Government formally protested some 60 cases of alleged torture through diplomatic channels, but the Secretariat of Foreign Relations has not confirmed any wrongdoing by Mexican police or officials.[3]

We would submit that a free trade agreement with a country in which there

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[2]**Human Rights in Mexico: A Policy of Impunity**, June, 1990, p. 5.

[3]1990 Country Report, p. 4.

were 60 outstanding complaints of torture of U.S. citizens in the last year alone is entirely inappropriate.

In addition to the abuses of the police and judicial system that lead to prisoner abuse and torture, another human rights problem disturbing in the context of free trade negotiations is the corruption of the judiciary. Without a fairly functioning court system, no hope for impartial litigation of conflicts or disputes that arise in the process of conducting business can be expected. This corruption grows out of the fact that the judiciary is un-elected, underpaid, and un-tenured. It is universally accepted in Mexico that the judicial system functions with complete impunity and total lack of accountability, which is corroborated even by the Government's own human rights' commission. It is also completely accepted that this corruption affects all cases before the courts without exception. Mexicans get the best justice money can buy, which means those without money remain without justice.

Finally, there is much reason for alarm, in the context of today's political violence, that those in Mexico who have questioned the wisdom of a free trade agreement have been subjected to repeated harassments and even death threats. This includes, noticeably, two highly respected Mexican intellectuals, Jorge Castaneda and Adolfo Aguilar-Zinser, who appeared in Washington, DC on January 15 in a forum which we sponsored, and who have subsequently been the target of a media campaign of vilification and abuse by the government-controlled media. A portion of that abuse, by the way, includes the suggestion that one of your own distinguished Members, Rep. Don Pease, is a "modern James K. Polk", the president who declared war on Mexico, and has these intellectuals on his payroll!

When even distinguished and prominent intellectuals can be so threatened for attempting a public discourse on trade policy, it is hard to imagine proceeding with a free trade negotiation under fast-track rules that suppress even further the opportunity for public debate.

We believe no negotiations should proceed, and certainly not fast-track negotiations, until basic human rights have been restored in fact as well as rhetoric by the Salinas government.

2. Labor rights are severely compromised in Mexico.

In Mexico today, after 61 years of rule by a one-party state which has used the language of labor rights as the centerpiece of its "institutionalized revolution," there is, ironically, almost no real respect for the basic rights of workers for freedom of association, freedom to organize and bargain collectively, or freedom to strike, except with boundaries prescribed by the state party and its related official unions. On paper, Mexico's labor laws are more protective of worker rights than those of the United States. Mexico looks almost like a workers' paradise. But in fact, those rights hardly exist.

The reason for this disparity is that the state has so dominated the trade union movement, by incorporating it into the ruling party apparatus, that the official trade unions have given away all independence, have become isolated from the rank and file, and have been corrupted into servants of the state and its party.

Further, although the rights to associate, organize and bargain are guaranteed in the constitution, the federal and state boards of conciliation and arbitration are allowed such latitude in determining whether unions are legal or whether strikes are justified, that in fact, few legal strikes take place. And when "illegal" strikes occur, they are suppressed with massive force, including the military. This pattern, decades old in Mexico, persists today.

This general picture of the labor rights situation was corroborated by an investigation of Mexican labor rights carried out from December 8, 1990 to February 2, 1991 by the International Labor Rights Fund. The investigation involved sending an experienced researcher to several major industrial cities and states, including: Mexico City, D.F.; Estado de Mexico; Monterrey, Nuevo Leon; Monclova, Coahuila; Chihuahua and Ciudad Juarez, Chihuahua and Tijuana, Baja California Norte. Scores of interviews were conducted with rank and file workers, labor union officials, attorneys practicing labor law, working women's

organizations, employers, employer associations, human rights organizations, and academics engaged in the study of labor unions.

The investigation focused on several fundamental labor rights as defined in the conventions of the International Labor Organization, 63 of which Mexico has ratified, and those rights defined in U.S. law as "internationally-recognized workers rights."[4] While the investigation looked in particular at the experience of workers in the maquiladora (or in-bond or twin-plant industries) which are concentrated in the Mexican border area, as a clue to the impact thus far of export-oriented industrialization on labor rights.

Our findings will be published later this spring in a book-length study, but to summarize them briefly:

a) **Mexican workers are systematically denied the most fundamental labor union rights.** By and large Mexican workers may not freely form or join labor organizations of their choice. Most Mexican workers who belong to labor unions have been forced to join the labor unions affiliated with the ruling Institutional Revolutionary Party (PRI). In most cases membership in the state controlled unions is a condition of employment, and membership in the union requires joining the ruling party. The Conciliation and Arbitration Board and the Secretary of Labor by and large refuse to grant labor union charters to independent unions. (Ironically the most important exception to this generalization are the charters granted to the "white unions" or company-controlled unions in Monterrey and other parts of Nuevo Leon.)

b) **Union democracy is virtually non-existent in Mexico.** Mexican workers who belong to the official labor unions are routinely denied the right to democratically control their organizations, to decide policy or to elect their own leaders. Most union officers are chosen by the ruling party for their posts. When rank and file workers do succeed in democratically electing their officers, the Boards of Conciliation and Arbitration and the Secretary of Labor regularly refuse to recognize the workers' democratically elected officials. In general, the Boards of Conciliation and Arbitration and the Secretary of Labor only recognize the union officials chosen by the ruling party.

c) **Many Mexican "official" labor unions exist not to protect the union's members but to protect the employers.** The official labor unions offer contracts known as "protection contracts" to the employers, who can then claim that their employees are represented by a union. In some cases, workers are unaware that a labor union exists and do not know that there is a labor union contract with the employer. These contracts typically contain clauses which are below the minimum standards guaranteed workers under the federal labor law.

d) **Unions frequently collude both with Mexican employers and transnational corporations in order to rid the workplace of reform-minded workers.** It is quite common for the union to ask the employer to fire workers who raise demands for union democracy, and it is also frequent practice for unions to expel members who make demands upon the employers. (Workers who are expelled from the union are also usually fired by the employer, since union membership is a condition of employment.) When individual firings fail to deter workers who seek to assert their rights, the employers and union officials may use mass firings of hundred or even thousands of workers. However, when even mass firings

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[4]cf. 1984 Trade Reform Act, sec. 502, which defines these rights as: "the right to association; the right to organize and bargain collectively; a prohibition against compulsory labor; a minimum age for the employment of children; and acceptable conditions of work with respect to minimum wages, hours or work, and occupational safety and health." This same definition of labor rights was incorporated into the 1988 Omnibus Trade Act, with defined as an unreasonable trade practice, "acts, policies and practices ... which constitute a persistent pattern of conduct that denies workers the right of association, denies workers the right to organize and bargain collectively, permits any form of forced or compulsory labor, fails to provide a minimum age for the employment of children, or fails to provide standards for minimum wages, hours of work, and occupational safety and health of workers. (Sec. 301 (3)(B)(iv) (I through V).

fail to deter workers who seek to assert their rights, the employers and union officials may also threaten, beat, kidnap or even murder labor union activists.

In 1987, when Ford Motor Co's Cuautitlan union resisted pressures for economic concessions, the company ended a bitter 61-day strike by liquidating the entire work force, temporarily closed the plant with the tacit approval of CTM's[5] national leadership and the de la Madrid government, then rehired 2,500 of its former workforce under terms more favorable to management.[6]

e) Legal strikes are virtually impossible to sustain, because of the role of the Boards of Conciliation and Arbitration and the use of police and judicial power to jail union leaders. Whenever workers do succeed, despite all the obstacles placed before them, in either taking control of their unions or forcing their union representatives to respond to their demands for higher wages, better benefits, or improved working conditions,and threaten employers with a strike, it is quite common for the Boards of Conciliation and Arbitration to use technical violations of the law or even to fabricate violations of the law in order to declare a strike to be "non-existent" under Mexican labor law.

f) The Mexican government continues to use military force to suppress labor strikes. Throughout the 70s and 80s there were many instances of such military intervention, but despite its reformist image, the Salinas administration has also used these police methods. On January 10, 1989 there was a massive police assault on the petroleum workers union in Ciudad Madero and the arrest of dozens of leaders of the union on charges of illegal possession of arms. On August 21, 1989 the Mexican Army took over the Cananea copper plant in order to prevent members of the Mine and Metal Workers union from protesting the state sale of the company.

g) In the name of labor reform, the Salinas administration has dismantled labor unions, dismissed thousands of workers, and substituted new corrupt leadership for old. In the petroleum industry, a dictatorial and corrupt labor union leader, Joaquin Hernandez Galicia (known as "La Quina") was forced from power only to be replaced by the PRI with an equally dictatorial substitute named Sebastian Guzman Cabrera, who then allowed the state petroleum company PEMEX to remove about 10,000 technical and professional employees from the union, to fire several thousand temporary workers, and to rewrite the petroleum workers labor contract, doing away with many contractual protections. In the case of the Cananea miners, the state company was sold off, and now the private employer is attempting to re-write the miners union contract to the detriment of the workers. In another union, the National Union of Education Workers, a massive movement by the teachers, involving huge demonstrations and strikes, succeeded finally in bringing down the long-time union boss Carlos Jongitud Barrios. However the ruling state party succeeded in containing the movement and installing in power another PRI-loyalist, Elba Esther Gordillo. In fact, it is commonly acknowledged in Mexico that the only basis for replacing union leadership is loyalty to Salinas.

h) In addition to direct state intervention, the government has tolerated without prosecution the use of informal violence against trade unionists. In addition to state violence, the government has tolerated company- or union-led violence against labor reformers without fear of prosecution. A little more than a year ago at the Ford Plant in Cuautitlan the Ford Motor Company of Mexico apparently allowed the CTM to introduce somewhere between 200 and 300 workers into the plant to intimidate workers involved in a union reform movement. The gang of infiltrators shot and wounded several workers, resulting in the death of one Ford worker by the name of Cleto Nigno. Several CTM officials were subsequently arrested but never prosecuted for this crime. Violence, fabricated charges, mass firings and other forms of repression were also used in the last two years by employers, "official" unions and the government against workers of the Modelo brewery,

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[5]Confederation of Mexican Workers the largest and most important labor federation.

[6]Kevin J. Middlebrook, "The Politics of Industrial Restructuring: Transnational Firms' search for Flexible Production in the Mexican Automobile Industry," p. 17.

Tornel rubber plant, Aeronaves de Mexico airline, and many others.

3. Substandard wages and indifference to workplace health and safety standards are integral to Mexico's policy for attracting foreign investment.

Mexico has lowered its average wages from one third those of the United States in 1979 to less than one ninth today. The opening of the economy to foreign investment, particularly through the Maquiladora program, has had as yet no upward effect on labor standards or on wage levels. In fact, quite the contrary seems to have taken place. While productivity in the past few years has grown dramatically in the Maquiladoras, wages have actually declined. Our investigator found that **the collusive relationship between the employers, union officials and the state has made it possible for Mexico to maintain what are among the lowest wages in the world for many kinds of industrial and service work, and to advertise these conditions as an incentive for foreign investment under a free trade agreement.**[7]

These conditions do not pertain solely to traditional labor-intensive sectors, such as garments or furniture manufacture. Mexican automobile workers at the Ford plant in Chihuahua, for example, have a base pay of about **90,000 pesos per week (30 dollars)** or about 120,000 pesos (about 40 dollars for 44 hours) with bonus pay. The cooperative nature of relations between the government, the companies and the unions has also made it possible for employers to avoid dealing with health and safety and environmental issues and to use child labor in some industries (particularly garment and shoes industries) with impunity. The Mexican government does virtually nothing to promote health and safety protection standards or to deal with environmental issues.

Of particular concern is the situation of workers in the maquiladoras industries. There are 1,909 maquiladoras employees 371,780 workers (145,297 men and 226,483 women).[8] Of these plants 1,464 are located on the border and 446 are located in other parts of the country. Levels of labor union organization in the maquiladoras vary from one city or state to another. In the state of Tamauplipas the level is nearly 100 percent, while in the cities of Ciudad Juarez, Chihuahua or in Tijuana, Baja California Norte, the levels are closer to 30 percent. Virtually all of the maquiladora workers are organized by the "official" labor unions (CTM, CROC, CROM) which belong to the Congress of Labor (CT) are affiliated with the ruling party (the PRI). In some cases these unions offer employers "protection contracts" which are below the standards of the federal labor law. In any case, the unions cooperate with management to control the workers and to keep wages low, and they have been quite successful in doing so. Typically workers earn a wage of between $25 and 30 in take home pay per 44 hour week, though on an annual basis (including the Christmas bonus and paid vacations, company paid meals and uniforms) the pay may rise to $60 per week in some areas. However, in large part because wages are so miserably low, **the turnover among workers at many maquiladoras is between 15 and 20 percent per month,** therefore many workers are never able to collect their Christmas bonus or paid vacations.

Leading authorities on unions in Northern Mexico argue that during the 1980s, employer and union control over workers became more authoritarian. They also point out that this has had a deleterious affect on labor unions rights in more established industry near Mexico City, particularly the auto and auto parts industries.

Mexico's chief negotiator of the Free Trade Agreement has indicated that the

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[7]This collusion has been formalized in anannually renews tripartite agreement betweeen employers, the government and the unions called the Pact of Economic Solidarity, which imposes upward limits on wage increases and ostensibly controls prices.

[8]This figure represents a decline in recent months of almost 130,000 workers, according to the Mexican Government, due to the recession in the U.S., which indicates how vulnerable this export sector is to fluctuations in external markets, and consequently what an unstable source of employment it is for Mexican workers, one million of whom newly enter the labor force each year.

maquiladoras can serve as a "microcosm" of what a future FTA can bring. That is a troubling vision.

The Need for a Social Charter

Why should we be concerned about these abusive conditions? Isn't this a matter for Mexico to deal with internally? Not if it is the basis of unrestricted trade with the United States.

Leaving aside our moral responsibility to protect fundamental civil and labor rights in Mexico, a North American Social Charter is necessary to make economic integration with Mexico serve domestic U.S. interests. Without a Social Charter, free trade with Mexico could undermine the U.S. economically, increase social instability, and threaten our own commitment to democracy.

From an economic perspective, free trade in the context of continued labor repression in Mexico would force American workers to relinquish hard-won protections and wages in order to remain competitive. It would reinforce U.S. employers' well-documented tendency to rely on low wages rather than more productivity-enhancing competitive strategies. Continuation of current labor conditions would also make it impossible fore Mexican workers to share in the benefits of rising productivity and create a market for the goods they produce. Without an increase in workers' buying power and aggregate demand in Mexico, the United States will simply be replicating with Mexico its dilemma with Korea, i.e. vastly increased imports the production of which does not generate sufficient income to increase exports from the U.S. to maintain a trade balance.

From a social and democratic perspective, a social charter is necessary to stem the alarming recent widening of the income distribution in the U.S. in the 1980s. Unregulated free trade will pull the rich and the poor in America further apart. It will mean the definitive end of the American Dream, of the shared conviction that each individual, through effort and determination can achieve social and economic success. As the upper tiers of society try to wall themselves off from the frustrations of workers on the margins of society, it may also threaten U.S. traditions of democracy and individual rights. This possibility is already tangible in figures indicating that the U.S. now has more private security guards than police officers; and that it has the highest rates of incarceration of any country in the world.

In Europe, the potential for international economic integration to tear more advanced countries apart has been recognized in the development of a European Social Charter to accompany the 1992 creation of a single European market. By bolstering regional adjustment funds and implementing the Charter, the EC aims to remove the "distortion" to competition associated with variations in labor and environmental standards. It also aims to strengthen the "social cohesion" of the Community -- to gradually reduce variation in Community living standards, thereby preventing a social and political reaction against inequality.

Some observers argue that EC92 requires a Social Charter because it will create an economic and political union. The U.S. and Mexico, on the other hand, are just proposing a free trade area. We believe, however, that the need for explicit negotiation about continental variation in labor and environmental standards is demonstrably greater in North America than in Europe. This is true, first, because income disparities within North America far exceed those in the EC. While the living standards of the EC's richest 260 million people ar about two-and-a-half times those of its poorest 80 million, the living standards of the 275 million U.S. and Canadian people are about 10 times those of Mexico's 88 million. The need for a Social Charter is also greater in North America than Europe because U.S. and Mexican labor markets are more intertwined than those in the EC: legal and illegal labor flows from Mexico to the U.S. are many times greater than actual (and anticipated post-1992) emigration from Spain, Greece and Portugal to the rest of the EC.

The need to contain destructive competition in labor rights was recognized, ironically enough, by the U.S. and Mexican governments back in 1947 when they, along with the government of the Union of South Africa (to heighten the irony) drafted the following provisions of the Havana Charter, which came to be incorporated by reference when the

General Agreement on Trade and Tariffs was established in 1954.

"The Members recognize that measures relating to employment must take fully into account the rights of workers under international declarations, conventions and agreements. They recognize that all countries have a common interest in the achievement and maintenance of fair labor standards related to productivity, and hence in the improvement of wages and working conditions as advances in productivity may permit. The Members recognize that unfair labor conditions in production for export create difficulties in international trade, and accordingly, each Member shall take whatever action may be appropriate and feasible to eliminate such conditions."

Negotiations over the best way to manage the economic integration with Mexico will be extraordinarily complex. For this reason, we believe that an extension of fast track authority to allow the Administration to negotiate an FTA with Mexico should be denied. It took Europe decades to design its current, still-unfinished continental social regulations. The U.S. and Mexico could not finish the same task in 6 months or a year. This does not mean that the U.S. should be unresponsive to Mexico's pressing need for financial assistance to pay for social needs and employment creation. A renegotiation of Mexico's debt burden could accomplish this while giving the U.S., Mexico and Canada the opportunity to begin what we anticipate will be a long but much-needed dialogue about continental economic arrangements that will best serve each country in the long run.

At the beginning of what we hope will be a thorough and democratic debate about future economic development in North America, we do not have a blueprint for a North American Social Charter. We do believe that the European and Canadian experience, as well as our own history as the largest and most culturally diverse country governed by the same federal social regulations, provide a starting point for the beginning of a trilateral public debate. Among the basic elements of a Social Charter would be: strengthened labor and community participation rights in the economy; minimum continental labor and environmental standards; a strengthened individual and regional social safety net; and tools to enable individuals, small firms and regions to pursue socially desirable economic development. Another very critical element is a dispute resolution mechanism with binding enforcement power, and to which individuals and small firms in all three countries can have ready and fair access. The jurisdiction of such a tribunal must be broad enough to include the range of social and environmental concerns to which we and other witnesses have alluded here.

We believe that there are two acceptable approaches to dealing with human, labor and environmental issues in North America: either improve human rights and negotiate social and environmental conditions prior to negotiating a free trade agreement, or place the social and environmental concerns within the FTA negotiating process with a commitment to reach acceptable and enforceable rules as part of any agreement brought back to Congress for a vote. Concurrent negotiations that are not linked, and without enforcement that is linked to access to the free trade system, is not acceptable.

The ideological embrace of free markets and free trade in the last decade has led to a confusion between means and ends. Free markets are not ends in themselves. If they are a means to decentralization of power with society, and thus democracy, and if they set in place economic incentives that deliver broad-based prosperity, then they deserve our support. But to the extent that they subvert our moral values and economic interests, they must be rejected or modified.

In summary, let me urge this committee to stop the railroad. Reject fast track negotiating authority and open up the debate. Negotiate a Social Charter that charts a new path for the entire region and all its people. Much good can be accomplished by trade that enhances broad-based development in all three countries; much harm will be done if trade is allowed to worsen the exploitation of the poor, the rape of the environment or the suppression of political freedom.

The leader of Mexico's largest opposition party, Cuauhtemoc Cardenas, recently spoke in New York about the prospects for enhanced trade and development between our countries.

His eloquent words are worth pondering, as a realistic and comprehensive vision of our future. I would like to request your permission to have his entire statement entered into the record of this hearing, and conclude by quoting from his opening remarks:

We face a challenge no other generation of Americans, Mexicans and Canadians have encountered: to prepare for the future by creating a framework of genuine continental cooperation. If we succeed and establish a mechanism for sharing with fairness our respective talents and resources, our economies will be strengthened and our peoples will live better, not at the expense of the wealth of the neighbor but thanks to each other's prosperity. However, we must not be misguided by false illusions or self indulgence: such compatible and equitable prosperity will not come automatically.

"To have a new relationship, to do things the right way, Mexicans and Americans in particular must acknowledge that the existing premises of our economic integration are not necessarily adequate to build a just and viable new relationship. The exploitation of cheap labor, energy and raw materials, technological dependency and lax environmental protection, should not be the premises upon which Mexico establishes links with the US, Canada and the world economy.

"We cannot be satisfied with the kind of future that would emerge from a simple economic liberalization. This would only extrapolate present trends and exacerbate present vices. Instead we should act with vision, to see and meet the future, not simply wait for it. Let us be responsible and prudent; not any kind of trade is a mutually advantageous exchange, not any type of investment is going to transform our productive foundations and create the jobs and incomes we want for our people; not any kind of industry is going to optimize the use of our resources and protect our habitat; not any profitable business is a responsible enterprise. Economic liberalization is not our objective, it is one of our tools. Development, social just and a clean environment are our objective."[9]

Thank you very much.

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[9]"The Continental Development and Trade Initiative", New York, February 8, 1991.

The Continental Development and Trade Initiative

A Statement by

Cuauhtemoc Cardenas

New York
February 8,1991

We face a challenge no other generation of Americans, Mexicans and Canadians have encountered: to prepare for the future by creating a framework of genuine continental cooperation. If we succeed and establish a mechanism for sharing with fairness our respective talents and resources, our economies will be strengthened and our peoples will live better, not at the expenses of the wealth of the neighbor but thanks to each other's prosperity. However, we must not be misguided by false illusions or self indulgence: such compatible and equitable prosperity will not come automatically.

To have a new relationship, to do things the right way, Mexicans and Americans in particular must acknowledge that the existing premises of our economic integration are not necessarily adequate to build a just and viable new relationship. The exploitation of cheap labor, energy and raw materials, technological dependency and lax environmental protection, should not be the premises upon which Mexico establishes links with the US, Canada and the world economy.

We cannot be satisfied with the kind of future that would emerge from a simple economic liberalization. This would only extrapolate present trends and exacerbate present vices. Instead we should act with vision, to see and meet the future, not simply wait for it. Let us be responsible and prudent: not any kind of trade is a mutually advantageous exchange, not any type of investment is going to transform our productive foundations and create the jobs and incomes we want for our people; not any kind of industry is going to optimize the use of our resources and protect our habitat; not any profitable business is a responsible enterprise. Economic liberalization is not our

objective, it is one of our tools. Development, social justice and a clean environment are our objectives.

We are in favor of a broad Continental Trade and Development Pact that primarily includes free trade between Mexico, the United States and Canada and that is, at the same time, in the interest of Mexico's development and not at the expense of US or Canadian welfare standards.

We know that there are those who consider that any agreement is better than no agreement; that for Mexico any access to the US market is a sufficient basis for accepting indiscriminate American demands, since that access is both a necessary and sufficient condition for Mexican development. We reject that stance. Trade, we insist, must be an instrument of development, not an end in itself.

The inertia of past and present trends, as well as the mistakes made in the implementation of our development strategies --lack of vision, the absence of any democratic accountability, corruption, mismanagement and demagogy-- have left Mexico with its secular social problems largely unresolved. Mexico's state party rule and imperfect development produced social lags and state atrophy, it also created imperfect private enterprises and imperfect markets. So far, the privatization and liberalization of the Mexican economy has not brought self sustained economic impetus, not improved Mexican entrepreneurial initiative, national technological innovation, nor has it allowed freer markets or more competition but rather a greater concentration of wealth in a few hands and a deeper dependence on foreign capital and ingenuity. We want Mexican markets to function, we are in favor of greater and fairer competition in Mexico and between Mexico and the rest of the world, and we know this cannot be achieved simply by shifting state monopolies to private ones. It is necessary to nourish the growth of a progressive, modern, bold and vigorous entrepreneurial class that Mexico never developed. A large part of the Mexican private sector will have to learn to stand on its own feet and profit from its initiative and competitiveness, not from sharing corruption with the government.

Development must translate into the emergence of economies of scale; large firms in those industries where production and commercialization are required, medium size and micro-firms spread all over the country. The preservation of the core of the Mexican state's regulatory capacity should be a non negotiable item; it is necessary to implement a national development strategy, overcome social backwardness and transform the Mexican economic system.

It is absolutely inadmissible that an international division of labor between the three countries assigns Mexico the role of a permanent supplier of cheap labor. Raising Mexican wage levels and working conditions in the general direction of American or Canadian standards, instead of systematically lowering our salaries and incomes to attract reluctant investors, is a paramount reason for pursuing new forms of economic integration.

We know that the challenge of today is to convert the war on poverty into a truly economic endeavor, whereby wealth is not simply distributed but actually generated through the very effort of eradicating poverty. To do that we also know that we should not confuse productive investment with social investment, and ask of one what

only the other can deliver.

Development is not just the business of developing countries. It is now clear to everybody, but above all to Americans, that they cannot isolate themselves from the poverty, deprivation, injustice and environmental degradation of their neighbors. Without the north re-adopting a humanistic ideal of development, international cooperation will be hampered by pollution, urban decay, crime, drug consumption and intolerance. The responsibility for solving these linked problems is not only the market's.

What we also must find is how to make the process of development for the millions of impoverished Mexicans compatible with American and Canadian interests and welfare. The core of a development pact must be the creation of well remunerated jobs in Mexico, and the increase of labor productivity in the three countries.

False prophets of economic determinism say we have no option but to enroll in a given international block. However, there is one thing in which countries like Mexico truly have no choice: to re-distribute income and to promote social development by conceiving new strategies in consonance with the world economy. We cannot accept the present order without attempting to negotiate the best possible conditions for our gradual international integration. The Continental Trade and Development Pact we propose offers an opportunity to engage in a new North-South dialogue, no longer with the sole purpose of drafting declarations, but to sign economic pacts and share actual development commitments. What we want to create is not defensive blocks or exclusive clubs but a new system of cooperation and integration between developed and developing countries.

The recent breakdown of the GATT Uruguay Round has encouraged the proponents of bilateralism in trade relations. We should not succumb to this temptation. We reject the notion that the US-Canada-Mexico FTA is the first step in a series of bilateral free trade agreements between the US and its Latin American neighbors. Instead, the true hemispheric dimension of a continental pact must be based on the principle of multilateralism. If Mexico, the United States and Canada are capable of molding their respective development objectives in an unprecedented understanding, this consensus should be the core of a new alternative process of multilateral negotiations for hemispheric integration. The Caribbean and Central America could join first, followed by the Andean and southern cone nations of South America.

The achievement of this and other goals is a challenge to our ability to be one step ahead of our time. What we need is not an straightforward free trade agreement that reproduces the unsatisfactory model of an FTA already signed by the US with Canada; neither can we follow a conventional common market model. If the inclusion of Canada in the talks means that Mexico is simply going to be a co-signer of the US-Canada FTA, with few adjustments and amendments, then we will energetically oppose such a deal. Existing pacts are only vague points of reference for what we really need. In the case of Mexico, the United States and Canada, we are facing an unprecedented attempt to reach agreement among three sharply different economies.

We propose an ambitious negotiation for a coherent, integrated, global approach conducive to a broad, long-term continental free trade and development pact.

The proposed FTA currently on the table, while nowhere near as broad ranging as the one we propose, is certainly not a strict trade deal. It includes the American trade-linked agenda -- investment, services, intellectual property, energy -- but nothing from the Mexican trade -linked agenda -- compensatory financing, labor mobility, environment, a social charter.

The alternative agreement we propose consists of five clearly defined negotiating baskets: first, strictly trade related matters; second, adoption and harmonization of norms in the following areas: investment, anti trust regulations, a social charter, the environment and intellectual property; third, compensatory financing; fourth, dispute settlement mechanisms; and fifth, labor mobility. Let me outline briefly the content of these five negotiating tracks.

TRADE

The guiding criteria to bring about free trade must be that reciprocity is not yet applicable except under very specific, exceptional circumstances. American and Canadian access to Mexican markets in those areas still protected must be gradual, selective and cushioned with adequate additional resources. On strict trade matters, this agreement must be above all an agreement that removes or reduces US non-tariff barriers.

Because of the existing disparities between the two economies, and the fact that Mexico, rightly or wrongly has already done so much in terms of granting access to its markets, it should have more time than the United States to phase out subsidies, remove remaining restrictions and be allowed to protect not only infant industries, but entire branches of industry and of services while it determines which parts of its economic activity can be competitive in the world economy, and develops niches for them. Mexico is particularly vulnerable in the area of services, where outright competition with US firms -in banking, engineering, insurance and other fields- could destroy the vital parts of its service industry.

It is often ingenuity, initiative or even arbitrary reasons, as well as the opportunities created by international trade, that determine a given country's niches. Mexico has some areas where it is already competitive: glass, cement, beer, automotive parts. There are others which are naturally determined. The most significant is oil, from energy to the petrochemical industry. In the field of services, Mexico also has a broad horizon ahead. The agreement should include provisions allowing Mexico to select those industries and determine how and when to develop them.

Similarly, provisions should be established whereby Mexican social policies -subsidies, education, housing, national health - should not be considered unfair trading practices during a substantial period.

As a general development strategy, Mexico's aim should be to change the entire maquiladora scheme as a first and very important step. Rules of origin should be designed with this purpose. After more than twenty five years of operation the maquiladora's backward linkages remain virtually non-existent. The maquiladoras have created nearly half a million jobs in twenty five years and generate some support for the balance of payments. However, a large part of them cause serious environmental

damages and nowhere is the gap between productivity growth and wages as dramatic, nor have real wages remained so low for as long a period of time compared to any other sector. This proves that under this type of arrangement, neither Mexican wages nor living conditions can be expected to rise significantly.

Subsistence agriculture, which produces most of Mexico's basic grains, must be removed from the bargaining table. Millions of peasants will be thrown off the land if their inefficient, backward and uncompetitive forms of production are suddenly exposed to the volatile world commodities market. The modernization of Mexican agriculture will not be achieved by following a path that any successful industrial country would reject for themselves. Mexico cannot proceed faster than GATT on agriculture, and should probably proceed even more slowly given the immigration and social effects that mass desertion from unirrigated, unproductive land would undoubtedly have. We need a radically new agricultural policy, one which goes beyond mere trade liberalization.

NORMS

Investment. Movements of capital, particularly direct foreign investments, are a central component of the new continental partnership we want to build. Mexico's anti-foreign investment culture is well entrenched and often justified in sour historical experiences. We must learn to see foreign investment not as an unavoidable evil but as a desirable opportunity and even a necessary instrument to attract resources, to close technological gaps and to move decisively into world markets. The partnership we want will not be created if we do not redefine the rules governing foreign investments in Mexico. The current system is ambiguous and casuistic. The role of foreign investment in our economy should be clear and its limits unequivocal. Such broad redefinition should emerge from a frank, truly open and plural national debate.

Those sections of the laws and regulations limiting foreign investment in Mexico that we believe must be maintained have to do with access to natural resources and the strategic sectors of the economy, mainly oil. The existing state monopoly on the exploration, extraction, refining and industrial transformation of Mexico's oil must remain intact and be excluded from any negotiation. This obviously includes, from our point of view, any commitment to a guaranteed supply of oil to the United States, in contrast to what Canada accepted in the US-Canada Free Trade Agreement. On the issue of oil, Mexico's negotiating position should be inflexible; any deviation from this norm is unacceptable and could lead to deep political divisions. The oil industry is to Mexico what the military and the aerospace industry is to the United States - a question of national security.

Social Charter. The existing disparities among the three economies imply that a substantive, central objective of these negotiations should be the gradual but decisive standardization of trade-related norms. First and foremost among these must be a social charter, ensuring that workers in the three countries enjoy the same real -not merely on paper- work site conditions, collective bargaining rights, legal framework, and occupational safety and health standards in order to avoid the exploitation of Mexicans and present unfair competition to their Americans and Canadian counterparts. Wages cannot be decreed into uniformity, but the conditions under which they are established, and the framework in which labor and management relations take place,

can be harmonized.

The environment. The harmonization of norms should also be implemented with respect to the environment. The agreement should set limits to each other's access to natural resources. Mexico cannot become a chemical waste or garbage dump for American or Canadian industries trying to get around environmental restrictions in their countries. Laxity in the enforcement of environmental laws in Mexico must cease to be an advantage for companies investing in Mexico. One of the main contributions of a continental pact to international cooperation would be the agreement among parties that the responsibilities and costs of protecting the environment are to be considered development costs and investments.

It is also necessary to harmonize consumer protection norms; it is unacceptable that products, substances and procedures deemed dangerous, unfit or toxic in the industrialized nations should be considered fit for the underdeveloped ones.

Environmental norm harmonization does not mean the immediate adoption of exactly the same norms by the three countries, but rather their fastest possible evolution in the same direction.

Special consideration must be given to the intellectual property chapter, an item that the US has demanded from the very start be included in the negotiations with Mexico. Given the fact that existing international legislation on the matter is in many ways detrimental to Mexico's development needs in crucial social areas, an effort should be made to adopt a set of norms that create a fairer system of technology transfer and intellectual rights.

COMPENSATORY FINANCING

In an economic integration process such as the one currently underway, the more disadvantaged economy inevitably has to make more and costlier adjustments. It also suffers more dislocations in the short term. The down-side effects tend to be of a global, immediate nature, whereas in the wealthier economies they tend to be limited and may be dealt with in the long term. The disparities between the three economies mean that, over and above the market-induced funds that could come as a consequence of the FTA, Mexico will require substantial funding to finance, first, the adjustment process, including needed investments in infrastructure and education in order to absorb additional new investments; second, the harmonization of norms and third, the provisions of a social charter.

We know that financing is not easy, but making the fundamental disparity of the three economies the cornerstone of the agreement means making compensatory financing its centerpiece.

SETTLEMENT OF DISPUTES

With regard to directly trade-related disputes, the mechanism that is set up, in addition to or in substitution of the GATT mechanism, must include provisions which parties from the three countries can resort to in equal terms. International verification and enforcement of agreed upon norm harmonization processes is also necessary. The way to achieve it is simply by extending the authority of a trade-related tripartite

dispute settlement mechanism. The basic instrument for enforcement ought to be the exclusion from the benefits of the agreement. Concurrently, provisions must be adopted to allow mechanisms of social verification of compliance, such as equal access to the dispute settling mechanisms for all concerned parties: manufacturers,growers, unions, environmental associations, consumer groups, human rights associations, etc. Along with the trilateral entities, recourse to international organizations like the United Nations, the OAS, the ILO for labor or UNEP for specific environment disputes can serve as the channel to find just solutions to these problems.

LABOR MOBILITY.

A genuine economic negotiation between Mexico and the United States could not conceivably avoid the controversial issue of labor mobility across the border. This is the most significant economic, social and human exchange between our two countries and thus sufficient reason to have migration at the top of our agenda.

Proponents of a narrow free trade agreement strongly advocate the removal of this topic from the pursuit of any trade deal, arguing that it is a "non-starter" and will contaminate the negotiating process to such an extent that it would ultimately make a final agreement impossible. In fact, the issue of labor mobility is already explicitly excluded from current negotiations between the Mexican and U.S. governments and anybody insisting on its inclusion is regarded as an enemy of free trade.

We understand the difficulties and recognize that there are deep cultural sensitivities and even racial resistance towards Mexican and Latin American immigration.

Ideally, Mexicans should not have to leave their country to find jobs in the US. Creating economic opportunities for all is no doubt our greatest aspiration. A free trade agreement is seen by many on both sides of the border as the bold economic move needed to stem migration flows at their source by creating jobs for Mexicans in Mexico. Furthermore, some believe that an FTA with no social conditions attached to it will create the best of all possible worlds for US industry: direct access to a permanent pool of cheap labor on the other side of the border. However, free trade alone might very well give impetus to the migration process instead of killing it.

According to all accounts, over the last years, since Mexico's economic liberalization started, migration to the United has substantially increased. Demographic trends and labor scarcities in the United States offer ample job opportunities for migrants. All empirical evidence collected by American and Mexican migration researchers shows that the single must important economic factor influencing the decisions of Mexicans to migrate are wages, that is, higher wages. Today, the typical profile of the new economic migrant coming from Mexico is not the illiterate unemployed, but the semi-skilled worker moving from a very low paying job in Mexico to a substantially higher paying one the US. By itself,a simple free trade deal could hardly change this.

It is understandable that many Americans do not want an open border with Mexico. It is equally comprehensible that Mexicans wish to do away with the humiliating and often repressive controls and limitations on border crossings. The very reason for negotiating on this issue is to find an intermediate, common ground between open

borders and illegal immigration beneficial for both parties. Legal and broad access for Mexican labor to the US job market that protects the rights of Mexicans in the United States in realistic and socially acceptable terms both from an American and from a Mexican standpoint surely possible.

A continental development and trade agreement will take time to build; our two countries have that time, even if the present Mexican administration does not. A good agreement that takes longer to reach is better than a bad agreement reached under duress and the pressure of time. Progress on the issues that interest one country should be linked to progress on issues of interest to the other.

A short sighted, narrow trade agreement will only bring prosperity for the few and a loss of hope for the many. A trade liberalization conceived and conducted within the framework of a real development alternative will mobilize the enthusiasm and commitment of numerous social groups in Mexico who today see themselves excluded from every benefit. We have the obligation to succeed with this opportunity to bring true progress and fruitful cooperation between our nations.

Chairman GIBBONS. Ms. Golodner.

STATEMENT OF LINDA F. GOLODNER, EXECUTIVE DIRECTOR, NATIONAL CONSUMERS LEAGUE, AND COCHAIR, CHILD LABOR COALITION

Ms. GOLODNER. Thank you, Mr. Chairman. I will summarize my remarks and hope that the prepared remarks will be a part of the record.

My name is Linda Golodner and I am the director of the National Consumers League. The league has a long history of strong leadership in efforts to eliminate the ravages wrought by child labor. In addition to directing the league, I am here today as the cochair of the Child Labor Coalition which is a group of 32 national and international organizations that recognize that exploitation of children in the labor market both in the United States and throughout the world is unacceptable, and represents a threat to their health, education, and well being.

Domestic child labor laws and international labor standards meant to protect children from exploitation are poorly enforced and ignored. Mexico is a perfect example of this dichotomy. Here we see a country with child labor laws which set a minimum age for employment at 14 years, restricts 14- and 15-year-old children to a maximum of 6 hours a day for work and prohibits hazardous work for children under the age of 16. It is one of several countries which has ratified the U.N. Convention on the Rights of the Child of which article 32 addresses child labor.

Any progress in laws, however, is stymied because viable enforcement is absent and child labor abuses are rampant. Enforcement efforts fall inadequately short for the over 11 million children working in Mexico. Documentation and statistics on the extent of child exploitation are insufficient and substantial inconsistencies exist between official figures and nongovernmental sources.

Official sources state, of the over 20 million children in Mexico under age 9, that none are economically active, and among the over 10 million children between the ages of 10 and 14, only 1.2 million are economically active. Other sources, however, indicate that the official figure of 1.2 million working children does not represent the 10 million children between the ages of 6 and 15 who work in the informal sector, as self-employed washing car windshields, selling chewing gum, cleaning shoes, and wrapping and delivering packages, among other jobs. These children are not considered officially working, because a structured employer-employee relationship does not exist and, therefore, a wage and legal working day is not required.

Of these 10 million children, approximately 1.5 million are abandoned, drug addicts and/or living in the streets. In light of this enormous economic activity, it is not surprising that half of the children entering primary school drop out, and only 10 percent of Mexico's children go on to secondary school.

Child labor is found in agriculture, it is found in the garment industry, it is found in services and small businesses, in domestic service, and in construction. Child labor is a problem in Mexico.

This problem must be intrinsically tied to any negotiated trade agreement with Mexico.

The administration's endeavor to enter into negotiations with Mexico for a comprehensive free trade agreement does not indicate any concern for child labor abuses in Mexico. The agreement does not provide for the protection of children, but what can the U.S. expect from an agreement?

First, we could expect increases in child labor. An example is the maquiladora industries situation that we see in Mexico now. Child labor is not uncommon in these plants, where enforcement is lax and violations go unchecked. Any agreement will encourage United States industries to relocate and operate under similar conditions.

In addition, as trade increases between the two countries, products manufactured and food harvested by child labor will be foisted on U.S. consumers.

At the turn of the century, the National Consumers League instituted the Consumers League label on goods that were made under conditions that were not exploitive. Are we going to see this again, that U.S. consumers will be called upon to take similar precautions to avoid supporting child labor practices through their purchases?

The coalition that I represent calls upon the subcommittee to democratize the process, by revoking the fact-track authority to allow these child labor concerns to be addressed. We have listed several recommendations in my prepared statement. Some are that the children be allowed the same protection that is in the Fair Labor Standards Act and that include the children hired in agriculture, that there be adequate safeguards to ensure enforcement of the labor laws, that there be strong protections, especially with children using pesticides and toxins, and that there should be a system to monitor the human rights sections of the agreement, to include visitation by nongovernmental representatives.

In conclusion, it is imperative that fast-track authority is revoked and Congress is given the opportunity to insure that child labor issues, as well as human rights, environmental, agricultural and labor concerns are an integral part of any negotiated trade agreement.

Thank you very much.

[The prepared statement follows:]

Testimony Of Linda Golodner
Executive Director, National Consumers League
Before The Subcommittee On Trade
Of The Committee On Ways And Means
House Of Representatives
Regarding The
Proposed U.S.-Mexico Free Trade Negotiations

February 20, 1991

Chairman Gibbons and members of the Subcommittee, my name is Linda Golodner. I am executive director of the National Consumers League, a private nonprofit membership organization with members representing every state in the nation and all walks of life. The League was founded in 1899 and has a history of strong leadership in efforts to eliminate the ravages wrought by child labor. This commitment culminated in the passing of the Fair Labor Standards Act in 1938 and efforts continue today in child labor research, education, and advocacy.

In addition to directing the National Consumers League, I am here today as co-chair of the Child Labor Coalition. This Coalition of 32 national and international organizations was formed in response to concern expressed in the November 1989 Capitol Hill Forum on exploitation of children in the workplace. Its concerns are global; the Child Labor Coalition believes that children are the promise of all societies and recognizes that exploitation of children in the labor market, both in the United States and throughout the world, represents a threat to their health, education, and well-being. The Coalition also believes that domestic child labor laws and international labor standards meant to protect children from exploitation are poorly enforced or ignored.

Mexico is a perfect example of this dichotomy. Here we see a country with child labor laws which sets a minimum age for employment at 14 years; restricts 14- and 15-year-old children to a maximum of 6 hours of work per day; and prohibits hazardous work for children under the age of 16. It is one of several countries which has ratified the U.N. Convention on the Rights Of The Child of which Article 32 addresses child labor. Any progress in laws, however, is stymied because viable enforcement is absent and child labor abuses are rampant. Enforcement efforts fall inadequately short for the over 11 million working children in Mexico. Moreover, documentation and statistics on the extent of child exploitation in the country are also insufficient and substantial inconsistencies exist between official figures and non-governmental sources.

Official sources state that of the over 20 million children in Mexico between the ages of 0 and 9, zero are economically active and among the over 10 million children between the ages of 10 and 14, only 1.2 million are economically active. Other sources, however, indicate that the "official" figure of 1.2 million working children does not represent the 10 million children between the ages of 6 and 15 who work in the informal sector as self-employed washing car windscreens, selling chewing gum, cleaning shoes, and wrapping and delivering packages among other jobs. These children are not considered "officially" working because a structured employer/employee relationship does not exist and therefore a "wage" and legal "working day" is not required. Of these 10 million children, approximately 1.5 million are abandoned, drug addicts, and/or living on the street. In light of this enormous economic activity, it is not surprising that half of the children entering primary school drop out and only 10 percent of Mexico's children go on to secondary school.

Child labor is found in all sectors of Mexico's economic activity. In agriculture, by far the most prevalent area of child labor, children as young as six are hired out with their families

to harvest fruits and vegetables. In the garment industry and other small-scale industries, children often work alongside a parent "helping out" and are therefore not considered employees, paid, or protected when injured. Child labor is also prevalent in construction, services and small businesses, and domestic service. This economic activity among Mexico's youth pays off in health, safety, and educational devastation.

What I have relayed presents a clear portrait of a child labor "problem" in Mexico; a solution to this problem must be intrinsically tied to any negotiated trade agreement with Mexico. The Administration's endeavor to enter into negotiations with Mexico for a comprehensive free trade agreement, however, does not indicate a concern for child labor abuses in Mexico. The Administration intends to use "fast track" authority, thus effectively limiting the debate and prohibiting amendments on issues such as child labor exploitation.

If the U.S.-Mexico Free Trade Agreement does not provide for the protection of children, what can the U.S. expect from an agreement? First, we can expect increases in child labor. An example is the Maquiladora industries. There are currently some 1,800 Maquiladora plants in Mexico employing approximately 500,000 workers, most of which are young women who are paid less than half of the average hourly wage in Mexico. The Wall Street Journal reported on September 22, 1989 that the growth of the Maquiladora program, "is helping turn much of the (Mexico-U.S.) border area into a sink hole of abysmal living conditions and environmental degradation." Child labor is not uncommon in these plants where enforcement is lax and violations go unchecked. Any agreement of which stringent enforcement of child labor laws is not an integral part will certainly not only open the door, but also encourage U.S. industries to relocate and operate under similar conditions. If child labor enforcement is not addressed in a U.S.-Mexico Free Trade Agreement, then an increase in child labor will accompany the increase in Maquiladora-type industries.

The U.S. can expect another result of an agreement which does not include child labor enforcement provisions. As trade increases between the two countries, products manufactured and food harvested by child labor will be foisted on U.S. consumers. At the turn of the century, the National Consumers League instituted the Consumers League Label which was affixed to factory products which guaranteed consumers that the product, among other safeguards, was not manufactured by children under the age of 16. Will U.S. consumers be called upon to take similar precautions to avoid supporting child labor practices through their purchases?

The exploitation of children which impacts their health, well-being, and education negates any of the Administration's perceived benefits for a "fast track" agreement. The Coalition calls upon this Subcommittee to democratize the process by revoking "fast track" authority thus allowing child labor concerns to be addressed.

Any U.S.-Mexico Free Trade Agreement must address child labor concerns. The following are five recommendations which evolved out of the Coalition's child labor workshop at the Capitol Hill Forum on the U.S.-Mexico Free Trade Agreement on January 15, 1991. The Child Labor Coalition and the National Consumers League presents the following for Congressional consideration:

1. The U.S.-Mexico Free Trade Agreement should require that Mexican children be afforded the same protection as U.S. children regarding child labor exploitation as found in the Fair Labor Standards Act. It is strongly recommended that no exceptions be given to agricultural labor.

2. The U.S.-Mexico Free Trade Agreement should require enforcement of child labor laws with authorities who oversee

the compliance of the U.S.-Mexico Free Trade Agreement being responsible for compliance of said laws.

3. The U.S.-Mexico Free Trade Agreement should ensure that re-entry time for farm workers entering fields after pesticides have been used be reevaluated for children.

4. The U.S.-Mexico Free Trade Agreement should ensure that this agreement does not escalate the problem of the exploitation of children in the garment and agricultural industries in both the U.S. and Mexico.

5. The U.S.-Mexico Free Trade Agreement should establish a system to monitor the human rights sections of the agreement to include visitation by non-government representatives. This would ensure compliance with child labor laws and workers' rights.

In conclusion, it is imperative that "fast track" authority is revoked and Congress is given the opportunity to ensure that child labor issues, as well as human rights, environmental, agricultural, and labor concerns are an integral part of any negotiated trade agreement.

Chairman GIBBONS. Thank you.
Mr. Kinney.

STATEMENT OF JOSEPH A. KINNEY, EXECUTIVE DIRECTOR, NATIONAL SAFE WORKPLACE INSTITUTE, CHICAGO, IL

Mr. KINNEY. Mr. Chairman, it is a privilege for me to be here. My name is Joseph Kinney, and I am executive director of the National Safe Workplace Institute. We are based in Chicago. We are funded through foundations, charitable contributions, and publication sales.

I would like to have my statement entered in the record, if possible, and I can just acknowledge——

Chairman GIBBONS. Your entire statement will be made part of the record.

Mr. KINNEY. We have been working on issues regarding occupational and environmental health issues in northern Mexico for the past 2 years. My colleague Lorraine Mora, who has been heading this project, unfortunately had to be hospitalized and I am here in her place.

We certainly concur with the other members of this panel that a system of economic and commercial integration in this region should not occur without also some social, legal, and regulatory integration, and there are a lot of reasons why we think that is necessary.

Before I get to those reasons, I would like to debunk one very crucial point. I would like to actually address a couple of points that have been raised today in testimony, that we have been asked to assume in the nature of going along with this fast-track agenda.

We heard from a number of speakers that by expanding trade with Mexico, that Mexico will be uplifted, will have more economic resources, and, therefore, they will be able to spend more money on enforcement capacity for occupational safety, environmental issues, and other matters. Nonsense.

We are about to issue a report, "Crisis at Our Doorstep: Occupation and Environmental Health Implications for Mexico-United States-Canada Trade Negotiations." We did a lot of research. We looked at this question. There is very good data which convincingly refutes this nonsense.

In looking at the International Monetary Fund's Yearbook for governmental financial statistics, in 1980, the Mexican Government spent exactly 2.4 percent of its budget on health. In 1988, the last year for which numbers are available, that number dropped to 1.1 percent. If you look at housing and community amenities, in 1980, it was 2.53 percent; in 1988, it was 1 percent.

So, given the trends, and certainly trade has been growing rapidly with Mexico, I guess in a couple of years it will be to zero.

[A table follows:]

TABLE 5.1.—SELECTED CENTRAL MEXICAN GOVERNMENT EXPENDITURES

[Billions of pesos]

	1980	1981	1982	1983	1984	1985	1986	1987	1988
Total	750	1,182	2,829	4,468	6,747	11,784	22,799	43,589	106,044
Health	18	22	37	54	102	163	288	555	1,170
Health expenditures as percent of total [1]	2.40	1.86	1.31	1.21	1.51	1.38	1.26	1.27	1.10
Housing and community amenities	19	48	66	100	161	202	297	754	1,065
Housing and community anemities as percent of total [2]	2.53	4.06	2.33	2.24	2.39	1.71	1.30	1.73	1.00

[1] Of the 26 countries in the Western Hemisphere for which there is data available, Mexico spent the smallest percentage of total government expenditures on health in 1988.

[2] Of the countries in the Western Hemisphere for which there is comparative data available, Mexico ranked 17th out of 25 countries in terms of percent government expenditures on housing and community amenities.

Source: Government Finance Statistics Yearbook, 1989, International Monetary Fund.

Mr. KINNEY. So, I think if we are going to sit here and have the American people assume everything is going to be all right, if we can expand trade, that the Mexican Government will take increased funds and spend them on the enforcement of the good laws that have been passed, well, I think there is just no evidence to support that.

I also sat here on the edge of my seat and listened to some real nonsense about occupational health. Our report contains a number of photographs. We have had at least three of our staff people in Mexico for quite some time. We have two staff people who are fluent in Spanish. We have been down, we have talked to workers, we have been in plants. I can tell you, U.S. chemical companies and other companies are in no ways even near in compliance with U.S. occupational and environmental health standards. They have open drainage systems, you will see drums of chemicals piled in parking lots. I can go on and on and on about the stuff that we have seen and photographed. In fact, I would like to leave this advance copy of the report with the committee. You can look at the pictures yourselves and judge for yourselves.

We talked to managers about why conditions are not good. We learned that many American companies go into the maquila program, with the idea of having good environmental and occupational health standards. Well, the reality is that there is nothing there to check the system, and sooner or later they say what the hell, why should we do this, there is no check on the system.

In fact, a couple of weeks ago, we called the Embassy of Mexico here in Washington and said, "Hey, we're thinking about the possibility of setting up a plant." We talked to a Mexican commercial attaché in Washington. "We would like to have English translations of environmental and occupational safety and health codes that we would have to observe, if we are in Mexico." The attaché replied: "Sorry, sir, we don't have those codes. We can send you codes on currency transactions, foreign investment, but nothing on environmental or occupational safety and health issues." If you do not believe me, I can give you the phone number and you can call right now, and if they have them, I apologize, but we have checked and they do not have that kind of information. What does that tell

the American businessman? Well, I will let you draw your own conclusions.

Material safety data sheets are documents critical to understanding chemical safety and hazard abatement, and certainly medical emergency treatment services and activities that should be undertaken when chemicals are improperly used and there is a resulting accident. We have looked at thousands of chemical drums in Mexico and we have yet to see a material data safety sheet in Spanish. It just does not happen. And I have to tell you that we have not spoken to that many Mexican workers who are conversant in English enough to understand how to use these sheets. In fact, the Chemical Manufacturers Association commissioned a study that recently showed that you almost have to be a Ph.D. level chemist to read and comprehend this kind of documentation.

You know, I think we can anticipate some impacts from this. Let me just address a few of those. There is no question in my mind that, living in an industrial heartland and conversing with American business people and workers, we already see pressure on the regulatory environment in Chicago and in the Midwest and elsewhere. These plant managers know they have to produce or the plant will be relocated to Mexico. If they think they can cut corners, they will cut corners, and that may result in people getting hurt, sick, and killed.

State governments have what are called industrial retention policies. I have talked to a number of people who run these programs. Sometimes they involve tax relief, they involve land-use zoning relief, they involve all sorts of concessions. The demands for these kinds of concessions on State government is accelerating.

If you could put a dollar value on those concessions, they are probably in the hundreds of millions of dollars already in Ohio, Illinois, Indiana, Michigan, and certainly other States.

This morning I rode on a plane out from Chicago and I talked to an EPA enforcement officer who had spoken to a plant manager who told her, "Hey, keep the heat up and we will just pack up and move to Mexico." There is a way to avoid that, and the way to avoid that is to move toward some sort of regulatory integration.

You know, there was a member of this committee some two decades ago, whose name was William Steiger. I happened to research Mr. Steiger, a Republican from Wisconsin, very thoroughly. I got an award in his name earlier this year from the American Conference of Industrial Hygiene. He was coauthor of the Steiger-Williams Act, which was the Occupational Safety and Health Act of 1970.

If you go back and carefully review the legislative history of that Act, Steiger was really concerned about one thing and that was leveling the playing field. He saw that his home State of Wisconsin and other States in the Middle West and other parts of the Union were losing businesses and plants to States that had weak worker safety and health laws, and he convinced Republicans, including one at the White House named Richard Nixon, that they should support national occupational safety and health laws.

You know, we worked hard in building up this apparatus, EPA, OSHA, all of these protections, and it seems to me that it would be a real travesty to put pressure on a regulatory climate that we pro-

duced by having unfettered, unthoughtful, in effect homicidal trade relations with Mexico.

So, those are my comments, Mr. Chairman.

[The prepared statement follows:]

TESTIMONY OF JOSEPH A. KINNEY, EXECUTIVE DIRECTOR NATIONAL SAFE WORKPLACE INSTITUTE

We are here today to express our hopes for the regional trade negotiations that may soon begin between the U.S., Canada and Mexico. The National Safe Workplace Institute is a 501(c)3 not-for-profit organization, funded largely by foundation and individual contributions, devoted to research and education on workplace safety and health issues. For the past two years we have carefully investigated occupational and environmental health issues in Northern Mexico. We have researched conditions in the border area because we felt that there was a startling need to improve occupational and environmental health conditions in that part of Mexico.

Evidence suggests that a trade pact that does not consider regional occupational and environmental health requirements may result in a disastrous situation for the people of this region--Canadians and Americans as well as Mexicans. A tragic outcome can best be avoided by negotiating a trade pact that ensures that Mexico develops effective occupational and environmental health programs that are fully and faithfully enforced.

The perspective that we present in this testimony is undoubtedly seen by some in stark ideological terms: free trade advocates versus protectionists. To some, we are seen as protectionists. Casting the debate in these terms suggests a purity of conviction that has little basis in economic or social reality. We are not here to kill expanded commerce with Mexico, which is truly in the region's interest. Rather, we are here to argue that there is a middle ground. We would like to see a trade pact that expands commerce while protecting the lives and dignity of people in Mexico, the U.S. and Canada. It would be penny wise and pound foolish, from our point of view, to negotiate an agreement that expands commerce while endangering the welfare of the people that commerce should benefit.

Our work has focused on foreign plants operating in the border area. These plants are known as maquiladoras. The vast majority are U.S.-owned although an increasing number are Japanese and German. In about two decades, the maquiladora industry has built 1,800 plants employing over 500,000 workers. Much of what we have to say in this testimony is based on what we know about this sector of the Mexican economy. While this is a limited view of Mexico, we also believe that it is an important view, one that reflects what will likely come in the future if we do not learn the important lessons that are there to be learned. In the very near future, we will issue a special report, Crisis at our Doorstep: Occupational and environmental health implications for the U.S.-Mexico-Canada regional trade negotiations that will further discuss our concerns about the maquiladora industry. In the meantime, we would like to share with the Committee and the Congress our concerns in the hope that we can have a more enlightened debate about this important issue.

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Findings

Before we get into the background of the maquiladora industry, there are a number of findings that we would like to share with the Committee. These include:

1. Many U.S. employers operating in Mexico pay little attention to the same occupational and environmental health considerations that are important determinants of corporate behavior in their country. Many of the few firms that inaugurate occupational and environmental health programs in Mexico quickly abandon those programs as a result of weak regulatory pressure.

2. Conditions in the maquiladora industry are deplorable. Plant conditions are poor. We found that workers are seldom given training, that machinery is not safeguarded, and that instructions on chemical hazards are nearly always written in English. Work-related injuries and illnesses are typically ignored and workers who complain are typically discharged.

3. The maquiladora industry contributes to the social disintegration of Mexico's families and culture. U.S. employers have a strong hiring preference for women and typically recruit workers from outside the border area. Evidence that suggests that these patterns contribute to a migration from Central Mexico to the already crowded border area. Since men are often denied jobs, family life deteriorates as women become the primary breadwinners.

The conditions for exploitation are prime. About one million individuals enter Mexico's work force each year in an economy that generates far fewer jobs. These new labor market entrants have little or no leverage with their employers. Many plants operate with turnover rates of 20% per month which suggests both the harshness of the conditions and the willingness of employers to discharge individuals. Many of the conditions that are commonplace in Mexico are also illegal in the United States.

Background

A continuing theme in industrial history has been a drive by manufacturers to maximize profits. Integral to this is a need to minimize costs. In the 1960s, many U.S. companies began seeking low regulatory and cheap wage environments to further this goal. At that time, workers were totally dependent on state laws for protection from unsafe and unhealthy work. Without question, there was great disparity in the level of protection that workers had in the North and the Midwest as compared to other parts of the U.S. The 1970 Occupational Health and Safety Act was passed, in part, to level the playing field, that is, to remove incentives for employers to locate in one state or another because of health and safety regulations.

In the 1980s, leveraged buy-outs and mergers put even more pressure on corporations to increase profitability. Many U.S. firms responded by transferring some of their operations to low regulatory and cheap labor environments in the newly industrializing countries (NICs) of the world. This is particularly disturbing as the business community in the NICs seeks to emulate the U.S. example, and thus, may perpetuate the occupational disease and injury tragedy. U.S. foreign policy must reflect its citizens' concern that employers be induced to run safe businesses whether they operate in the U.S. or overseas.

The Mexican border region is one area where many U.S. multinationals have chosen to relocate assembly operations. Since the maquiladoras are 90% U.S.-owned and export almost exclusively to the U.S., they merit special attention by Americans as we consider ways to expand regional trade.

The maquiladoras and trade policy

The maquiladoras have existed since the mid-1960s when the U.S. Tariff schedule was adjusted to greatly reduce the import duties on U.S. goods that are shipped abroad for assembly and then re-imported into the U.S. Further encouragement was provided in 1970 when the Mexican government codified its Border Industrialization Program. This program offered incentives to foreign investors that were not available to domestic industry. Originally these incentives were restricted to export processing zones in the border areas, but since 1986 they have applied throughout the country. However, about 90% of the maquiladoras continue to operate in border communities. Please see Appendix I for a map of key border locations for maquiladora employers.

Since the 1960s, nearly 1,800 maquila plants have been established, employing 500,000 workers, of whom 425,000 are women. In 1986, one out of every 10 Mexican industrial workers was employed by the maquiladoras. Today, maquila products account for 50% of all U.S. imports under the 807 program of the U.S. Tariff schedule and for 25% of Mexico's total manufactured exports. In 1989, maquila employers generated $2.9 billion in export earnings for Mexico, second only to the oil industry. There is very little evidence that the recession is slowing down the growth of the maquila industry. Indeed, we believe that a prolonged recession could further stimulate growth by encouraging plant relocation in order to reduce operating costs.

Occupational health risks

The occupational health risks faced by the maquiladora work force are considerable. The most obvious health risks are the result of work pace, poor work

station design and exposure to toxic substances. Most maquiladora assembly plants have accelerated work processes 25% great than they would be in the U.S. The work day is also 50% longer, averaging about 12 hours per day. The maquiladora work force is composed mostly of women who are hired at about the age of 16 and are usually burnt out or crippled by the age of 25 from the frenetic work pace. In the vast majority of cases, an occupational injury or illness will economically devastate an individual already living at or near the poverty level.

Workers are known to be routinely exposed to dangerous levels of lead, methylene chloride--a known carcinogen--thinner, acetone, alcohol, and flux. One of the most dramatic dangers from chemical exposures in maquiladora plants has been to children. An alarming number of retarded children have been born to mothers who worked in maquiladora plants during their pregnancies.

Further risks and mistreatment include: denial of information on chemicals used in the workplace; machinery that lacks safeguards to prevent severe injury; lack of preventive clothing and equipment; inadequate training; and intimidation of those who complain with threats of job loss or wage cuts. The maquiladoras generally cite greater dexterity and quickness as the reasons for their tendency to hire young women. However, many reliable observers believe that these employers are also seeking to take advantage of a Latino culture which discourages women, and especially young women, from voicing concerns.

Occupational health conditions in maquila factories are likely to grow worse. Among the industries predicted to grow most quickly are: electronics; the cleaning, priming and painting of products; and chemical production. This trend towards more processes which use hazardous substances should concern health professionals, particularly since it comes at a time when a rapid influx of new U.S. firms is expected. Appendix II lists some of the chemical hazards commonly encountered in maquiladora electronic components industry alone.

Many argue that U.S. policies which encourage the proliferation of maquila operations in Mexico are a form of development assistance. They are wrong. The reality is that while maquiladoras have provided for added employment opportunities, their operations have often endangered the health of employees and the surrounding community. Furthermore, the transfer of technical expertise and management skills--a key component of most development endeavors--to the local work force is almost non-existent. The largely female maquiladora work force is in unskilled positions with virtually no opportunities for occupational advancement. Finally, since the maquiladoras do not purchase materials from local producers--only two to five percent of material inputs presently come from Mexico--their ability to foster offshoot industries is limited. In sum, it is the multinational corporations, and not the Mexican work force, who benefit most from the maquila system.

The future

A trade agreement between the U.S., Mexico and Canada would greatly encourage expansion of the maquiladora system. We are sympathetic with Mexico's massive unemployment challenge. Likewise, we are not insensitive to U.S. goals of reducing immigration, ensuring that bank loans are repaid and expanding access to energy sources. However, we insist that occupational safety, health, and environmental quality also be on the agenda when governments of the regional begin to negotiate a new regional trade pact.

Not only is maquiladora disregard for employee health disturbing, but it is disconcerting that gains in U.S. occupational safety and health policy may be offset by a trade agreement with Mexico that allows and encourages negligent U.S. employers to move their operations to Mexico and still export goods to the U.S. Employers who have remained in the U.S. must then compete with the maquiladoras at an unfair disadvantage, thereby increasing the pressure on U.S. employers to cut costs, including those associated with health and safety. In a free trade zone all employers should operate under similar regulatory constraints. Certainly, the recent passage of the Clean Air Act only adds to regulatory pressure on U.S. employers.

At least two international codes support our perspective on trade expansion with Mexico. For example, the General Agreement for Trade and Tariffs (GATT) contains language that permits limitations on imports from countries with poor labor practices. Likewise, the International Labor Office's Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy also supports such a move. This resolution states that the health and safety standards upheld by multinational corporations in all countries of operation should be those practiced in the country of strictest regulation. While some maquila employers embrace this resolution, the majority do not.

There are a few bright signs on the horizon, signs that give us encouragement. Recently, the Mexican state of Baja California and the University of California at Los Angeles entered into an agreement whereby UCLA will train occupational and environmental health inspectors in Baja. This agreement has been supported by the Mexican Ministry of Health. This agreement could become the nucleus of the transplantation of U.S. regulatory technology that is so crucial to the region's long-term growth.

Currently, the National Safe Workplace Institute is establishing a joint U.S.-Mexico Occupational and Environmental Health Committee. The Committee will be comprised of occupational and environmental health experts from both sides of the border that will focus on specific steps that can be taken to improve workplace safety and health and environmental conditions in Mexico. This Committee will focus on health and injury surveillance systems, technical assistance, monitoring, academic exchanges and other techniques for addressing Mexico's occupational and environmental health requirements in a deliberate and pro-active fashion. To the extent possible, the Committee will look beyond what government can and should do to what employers, universities, international organizations, unions and other private sector elements can contribute. This Committee will be an independent body that will operate in the true spirit of international cooperation.

In closing, we believe that a narrow agreement that expands only commerce without appropriate occupational and environmental health stipulations would be harmful to regional interests. We anticipate that the following would occur:

•In Mexico, occupational and environmental health of people in the border areas will continue to suffer. People will die premature, unnecessary deaths with attendant consequences. The price paid by the people of the region will be enormous.

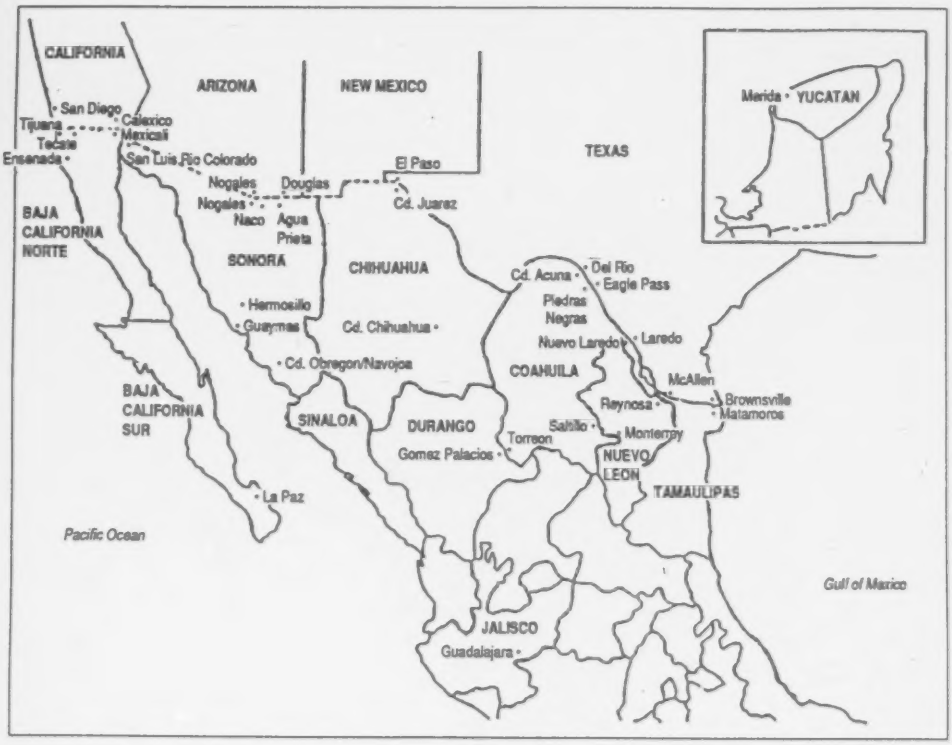
•For U.S. state governments, the cost of "industrial retention" policies will surely grow. States now are granting a variety of concessions to retain industry that is increasingly playing the maquila card. The concessions granted include tax relief, land use modifications, utility rate reductions, and other enticements.

•For the federal government, we can anticipate that there will be pressure to relax existing occupational and environmental health standards. Indeed, this pressure may already exist in an implicit fashion. Moreover, we can expect that the U.S. will absorb much of the health care burden that is associated with occupationally and environmentally-related diseases.

We realize that there are and will continue to be enormous pressures on the Congress and the Executive Branch to see this regional trade negotiation in ideological terms. While such a narrow approach would be intellectually comforting, it will be harmful to the region's interests. We urge you to reject this approach and to join us in examining the course that we have shared with you in general terms today. We appreciate the privilege of being here today and thank you for this opportunity to share our views.

Appendix I.

Table 1.1
Maquila Plants in Mexico



City	Number of Maquilas	City	Number of Maquilas
1. Tijuana	530	10. Reynosa	57
2. Cd. Juarez	309	11. Piedras Negras	39
3. Mexicali	148	12. Cd. Acuna	36
4. Matamoros	89	13. Ensenada	33
5. Tecate	86	14. Torreon/Gomez Palacios	29
6. Nuevo Laredo	67	15. Agua Prieta	28
7. Nogales	65	16. Merida	28
8. Monterrey/NL	62	17. La Paz	16
9. Chihuahua	61	18. Other Cities	72
		Total	**1755**

***Source:** Prepared by NSWI, based on data from the Texas Center for Policy Studies.*

Appendix II.

Typical Hazardous Materials Used in Maquiladora Electronic Components Industry.

Category	Materials Used	
Solvents	acetone	isopropanol
	trichloroethylene	n-butyl acetatte
	2-ethoxyethanol	perchloroethylene
	toluene	
	freons	
	xylene	
	1,1,1-trichloroethane	
Acids	chromic acid	
	nitric acid	
	hydrogen chloride	
	phosphoric acid	
	hydrogen fluoride	
	sulfuric acid	
Bases	ammonium hydroxide	
	potasium hydroxide	
	sodium hydroxide	
Gases	ammonia	diborane
	arsine	silane
	boron trifluoride	
	phosphine	
	chlorine	
	chlorosilanes	
Metals	antimony	chromium
	arsenic	lead
	barium	manganese
	berlylium	
	nickel	
	cadmium	
	silver	
Other	asbestos	
	plasticizers	
	epoxy resins	
	fiberglass	
	specialty chemicals	
	oxidizers	

Source: Compiled by NSWI and based on the composition of maquila industry.

Mr. KINNEY. By the way, I want to say one other thing on my mind. You know, we heard about the process here today and I think that is real nice. We wrote a very long letter to Carla Hills—and I would be interested in making it part of the record, if you would be interested in having it—and we got a couple of sentences. We are still waiting for our meeting. Are they interested in having the kind of expertise that she says they are lacking? I have not seen any move by the U.S. Trade Representative to set up a committee of people to advise her on regulatory issues.

You know, I have got members on my board from the Emory University Medical School, the University of Illinois, other medical schools, law schools at various places, and businesses. You know, we would be happy to contribute our expertise. I do not think they want our expertise, frankly, from the looks of our communications with them. Maybe they do not think we are serious. I can tell you that we are serious.

Chairman GIBBONS. Have you got that letter that you talked about?

Mr. KINNEY. I will provide it.

Chairman GIBBONS. If you can provide it within a reasonable amount of time, we will accept it in the record, without objection.

Mr. KINNEY. Thank you.

[The letter of Mr. Kinney follows:]

National
Safe
Workplace
Institute

122 South Michigan Avenue Suite 1440 Chicago, Illinois 60603

(312)939-0660 FAX939-8105

July 26, 1990

Hon. Carla A. Hills
U.S. Trade Representative
600 Seventeenth Street, N.W.
Washington, D.C. 20506

Dear Ambassador Hills:

We are writing to express our concerns about the Free Trade Agreement (FTA) negotiations that will be initiated in December between the U.S. and Mexico. Significant evidence suggests that these talks may result in a disastrous situation for both U.S. and Mexican workers. This tragic outcome can be avoided by ensuring that all products made for the U.S. market by U.S. companies and U.S.-joint ventures be produced in accordance with U.S. occupational safety and health law.

The National Safe Workplace Institute is a 501(c)3 not-for-profit organization that does research and education on workplace safety and health issues. We are deeply concerned about the maquiladora industry, U.S.-owned assembly plants that operate in Mexico and export largely to the U.S. In a short period of time, the maquiladora industry has built 1,800 plants employing over 500,000 workers under some of the worst working conditions in the industrialized world. Since the products of maquila labor are intended either solely or largely for the U.S. market and these factories are 90% U.S.-owned, we believe that the conditions under which these products are produced should meet U.S. occupational safety and health requirements.

Some background is necessary to understand this situation.

Background

A continuing theme in industrial history has been a drive by manufacturers to maximize profits. Integral to this is a need to minimize costs. In the 1960's, many U.S. companies began seeking out low regulatory and cheap wage environments to further this goal. At that time, workers were totally dependent on state laws for protection from unsafe and unhealthy work. Without question, there was great disparity in the level of protection that workers had in the North and the Midwest as compared to other parts of the U.S. The 1970 Occupational Health and Safety Act

was passed, in part, to level the playing field, that is, to remove incentives for employers to locate in one state or another because of health and safety regulations.

In the 1980's, leveraged buy-outs and mergers put even more pressure on corporations to increase profitability. Many U.S. firms responded by transferring some of their operations to low regulatory and cheap labor environments in the newly industrializing countries (NICs) of the world. Unfortunately, the acceptance of hazardous working conditions by many U.S. managers followed these operations as "cultural baggage" to their new locations. This is particularly disturbing as the business community in the NICs seeks to emulate the U.S. example, and thus, may perpetuate the occupational disease and injury tragedy. U.S. foreign policy must reflect its citizens' concern that employers be induced to run safe businesses whether they operate in the U.S. or overseas.

The Mexican border region is one area where many U.S. multinationals have chosen to relocate assembly operations. Since the maquiladoras are 90% U.S.-owned and export almost exclusively to the U.S., they merit special attention by Americans.

The Maquiladoras and Trade Policy

The maquiladoras have existed since the mid-1960's when the U.S. Tariff schedule was adjusted to greatly reduce the import duties on U.S. goods that are shipped abroad for assembly and then re-imported into the U.S. Further encouragement was provided in 1970 when the Mexican government codified its Border Industrialization program. This program offered incentives to foreign investors that were not available to domestic industry. Originally these incentives were restricted to export processing zones in the border areas, but since 1986 they have applied throughout the country. However, about 90% of the maquiladoras continue to operate in border communities (please see Table 1).

Since the 1960's, nearly 1800 maquila plants have been established, employing 500,000 workers, of whom 425,000 are women. In 1986, one out of every 10 Mexican industrial workers was employed by the maquiladoras. Today, maquila products account for 50% of all U.S. imports under the 807 program of the U.S. Tariff schedule and for 25% of Mexico's total manufactured exports.

Table 1. Maquila Plants in Mexico

City	No. of Maquilas	City	No. of Maquilas
1. Tijuana	530	10. Reynosa	57
2. Cd. Juarez	309	11. Piedas Negras	39
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4. Matamoros	89	13. Ensenada	33
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8. Monterrey/NL	62	17. La Paz	16
9. Chihuahua	61	18. Other Cities	72
		Total	1755

Source: Prepared by NSWI, based on data from the Texas Center for Policy Studies.

Occupational Health Risks

The occupational health risks faced by the maquiladoras workforce are considerable. The most obvious health risks are the result of work pace, poor work station design and exposure to toxic substances. Most maquiladoras assembly plants have accelerated work processes 25% from what they would be in the U.S. The work day is also 50% longer. The maquiladoras workforce is composed mostly of women (85%) who are hired at about the age of 16 and are usually burnt out or crippled by the age of 25 from the frenetic work pace. In the vast majority of cases, an occupational injury or illness will economically devastate an individual already living at or near the poverty level.

Workers are known to be routinely exposed to dangerous levels of lead, methylene chloride (a known carcinogen), thinner, acetone, alcohol, and flux. One of the most dramatic dangers from chemical exposures in maquiladora plants has been to children. An alarming number of retarded children have been born to mothers who worked in maquiladora plants during their pregnancies.

Further risks and mistreatment include: denial of information on chemicals used in the workplace, machinery that lacks safeguards to prevent severe injury, lack of preventive clothing and equipment, inadequate training, and intimidation of those who complain with threats of job loss or wage cuts. The maquiladoras generally cite greater dexterity and quickness as the reasons for their tendency to hire young women. However, many reliable observers believe that these employers are also seeking to take advantage of a Latino culture which discourages women, and especially young women, from voicing concerns.

Occupational health conditions in maquila factories are likely to grow worse. Among the industries predicted to grow most quickly are: electronics; the cleaning, priming and painting of products; and chemical production. This trend towards more processes which use hazardous substances should concern health professionals, particularly since it comes at a time when a rapid influx of new U.S. firms is expected. Table 2 lists some of the chemical hazards commonly encountered in maquiladora electronic components industry alone.

Table 2. Typical Hazardous Materials Used in Maquiladora Electronic Components Industry

Category	Materials Used		
Solvents	acetone	isopropanol	trichloroethylene
	n-butyl acetate	2-ethoxyethanol	perchloroethylene
	toluene	freons	xylene
	1,1,1-trichloroethane		
Acids	chromic acid	nitric acid	hydrogen chloride
	phosphoric acid	hydrogen fluoride	sulfuric acid
Bases	ammonium hydroxide	potasium hydroxide	sodium hydroxide

Gases	ammonia	diborane	arsine
	silane	boron trifluoride	phosphine
	chlorine	chlorosilanes	
Metals	antimony	chromium	arsenic
	lead	barium	manganese
	berllium	nickel	cadmium
	silver		
Other	asbestos	plasticizers	epoxy resins
	fiberglass	specialty chemicals	oxidizers

Source: Compiled by NSWI and based on the composition of maquila industry.

Many argue that U.S. policies which encourage the proliferation of maquila operations in Mexico are a form of development assistance. They are wrong. The reality of the situation is that while maquiladoras have provided for added employment opportunities, their operations have often endangered the health of employees and the surrounding community. Furthermore, the transfer of technical expertise and management skills (a key component of most development endeavors) to the local workforce is almost non-existent. The largely female maquiladora workforce is in unskilled positions with virtually no opportunities for occupational advancement. Finally, since the maquiladoras do not purchase materials from local producers (only 2 to 5% of material inputs presently come from Mexico), their ability to foster offshoot industries is limited. In sum, it is the multinational corporations, and not the Mexican workforce, who benefit most from the maquila system. Many believe that their benefits are not optimal either as business experts are coming to realize that tighter regulatory environments are good for business because they stimulate innovation.

The Future

A bilateral free trade agreement between the U.S. and Mexico would greatly encourage expansion of the maquiladora system. We are sympathetic with the reality that President Salinas has a massive unemployment problem to grapple with (over a million people enter the Mexican workforce each year) and that President Bush is under pressure to curtail immigration. However, we insist that occupational safety, health, and environmental quality be on the agenda when President Bush and Mexican President Salinas meet in December to consider issues leading to formal negotiations of a bilateral trade agreement. Furthermore, we are concerned that more stringent air quality requirements of the new U.S. Clean Air Act, along with stronger occupational health requirements, will result in more pressure to expand the maquiladora industry.

Not only is maquiladora disregard for employee health disturbing, but it is disconcerting that gains in U.S. occupational safety and health policy may be offset by a trade agreement with Mexico that allows and encourages negligent U.S. employers to move their operations to Mexico and still export goods to the U.S. Employers who have remained in the U.S. must then compete with the maquiladoras at an unfair disadvantage, thereby increasing the pressure on U.S. employers to cut costs, including those associated with health and safety. In a free trade zone all employers should operate under similar regulatory constraints.

One approach that would not impinge on Mexican exports to other countries would be to simply require that all goods sold in the U.S. be produced in safe work environments. Rationale for such legislation could be found in the General Agreement for Trade and Tariffs (GATT) which calls for a limit on imports from countries with poor labor practices. The International Labor Office's Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy would also support such a move. This resolution states that the health and safety standards upheld by multinational corporations in all countries of operation should be those practiced in the country of strictest regulation.

Enforcement of such legislation could be carried out through inspections by the U.S. Occupational Safety and Health Administration. A precedent for inspection of foreign operations has already been set by the U.S. Department of Agriculture, which inspects foreign meat processing facilities that export to the U.S. The U.S. Environmental Protection Agency has also been investigating maquila operations in regards to their toxic disposal practices and even plans to hold an annual conference with all maquiladoras.

A choice between unsafe work or no work is not a choice U.S. or Mexican employees should have to make. If Presidents Bush and Salinas are truly concerned about economic and human development in both of their countries, then they will seek to mandate responsible multinational behavior as part of a new Free Trade Agreement. We would certainly prefer a course that takes into consideration essential occupational safety and health requirements. We certainly hope that you take these views into consideration as you prepare for this most important negotiation.

Sincerely yours,

Joseph A. Kinney
Executive Director

cc: Members, U.S. Senate
Secretary of Labor

DEPUTY UNITED STATES TRADE REPRESENTATIVE
EXECUTIVE OFFICE OF THE PRESIDENT
WASHINGTON, D.C. 20506

AUG 9 1990

Mr. Joseph A. Kinney
Executive Director
National Safe Workplace Institute
122 South Michigan Avenue
Suite 1449
Chicago, Illinois 60603

Dear Mr. Kinney:

Thank you for your letter of July 26 concerning an FTA with Mexico and working conditions in maquiladora industries. Ambassador Hills has asked me to respond on her behalf.

As you are probably aware, in June, Presidents Bush and Salinas directed Ambassador Hills and her counterpart, Secretary Serra, to undertake the consultations and preparatory work needed to initiate negotiations on an FTA. On August 8, President Bush said he expects to notify Congress formally when it reconvenes in September of his intent to negotiate an FTA with Mexico.

We are now in the midst of gathering information and advice with respect to the issues surrounding an FTA. In your discussion of the maquiladora program, you raise many serious concerns about employment standards in Mexico, and this information will be shared with the staff here looking at the labor issue.

Again, thank you for sharing your views with us.

Sincerely,

Julius L. Katz

JLK:rf

Chairman GIBBONS. I get the impression that it is sort of the consensus at the table that conditions are worse in Mexico now than they were 10 years ago. Is that right?

Mr. KINNEY. I can address that directly, if you do not mind. I was a U.S. marine in 1967-68 at Camp Pendleton, and even though we were told to stay away from Tijuana, I went just to look. I grew up in Kansas and it was my first Third World experience and it was quite some experience to me. It was very, very impactful.

Just 1 month ago, I went to Tijuana and, I can tell you, Tijuana is much worse now than it was 25 years ago. The poverty is clear, there is all sorts of Central American Indian-type people who are begging with styrofoam cups on Revolutionary Drive, in the middle of Tijuana. Tijuana itself is a police state. There are more policemen per block in Tijuana than any place I have ever been.

At night, you have helicopters with searchlights going up and down the border. In fact, at least when we crossed into Mexico, there were U.S. military people guarding the border. That is all different. It is much dirtier, there are a lot more beggars, there is more crime, there are more police, there is more tension, you can feel it, than there was 25 years ago.

Chairman GIBBONS. But the consensus of the panel is that conditions are much worse in Mexico now than they were 10 years ago, is that right?

Mr. HARVEY. Mr. Chairman, I am not a specialist on Mexico, but I can tell you that everything I have seen and studied and every expert I have talked to from Mexico who works in Mexico from this country is in agreement, that conditions are worsening at a social level on almost all fronts.

Chairman GIBBONS. All of you decry the worsening of conditions, as I understood your testimony, and you think the way we ought to improve them is by entering into a social contract with Mexico. Would you explain to me a little more about how we do that?

Mr. HARVEY. I will make an attempt at that, sir.

Chairman GIBBONS. All right.

Mr. HARVEY. I do not think a social contract with Mexico by itself will amount to a hill of beans, but increased economic integration and the development of the kinds of flows of technology, investment, services and trade and goods that Mexico wants and needs, if accompanied by the kinds of conditions that have distributory effects in Mexico——

Chairman GIBBONS. What kind of effects?

Mr. HARVEY. That have distributory effects in Mexico, that help make the Mexican population able to participate more fully than it is now, to begin to redress some of the decline of the last decade, again put a floor under wages. The combined effect of increased economic activity with the United States and attention to those social factors I believe is what the Mexican people will find useful in repairing the damage that has been done to their economy and their society over the last 20 or 30 years.

Mr. KINNEY. The data show that real wages have dropped 50 percent in the last 10 years. I would like to stress that, you know, I certainly do not have any problem with increased commercial integration of our two economies. You look at Mexico, they have a million new workers coming into the labor market each year, it is ob-

vious that if they do not have opportunities for gainful employment, that they are going to come across the border, where wages are 10 times greater. Something has to happen.

I think what I am saying and I think what I hear these people saying—I do not want to speak for them—is that we need to sit down and negotiate these issues much the same way that has occurred with European economic and social integration. I think that has been a fairly successful mode, albeit the income disparities are not as large as they are with Mexico, but I think we should talk about these issues and I think we should talk about them in the context of an agreement and not say, well, we are going to deal with commerce now and maybe we will get these other issues later, because if we wait, it is not going to happen.

Mr. ORTMAN. If I could respond that the key there is the notion of a comprehensive trade agreement that incorporates these other elements. We think there is a cost that is building up. If we do not incorporate the environmental-labor issues that we have talked about at this point, maquila industries may result in a super fund program to clean up the mess because we did not take things into account. We think in the long run it is far cheaper to integrate these concerns now and do it in the proper time, than to wait and do it later.

Chairman GIBBONS. Mr. Kinney has described his contacts with USTR as being practically nil. Is that the same kind of response you all get from USTR?

Mr. HARVEY. We have not had any contact with USTR directly, although members of our coalition have had some contact with them.

Chairman GIBBONS. Have you attempted to have contact with them?

Mr. HARVEY. The contact that has been had—I have not attempted personally, but others related to the fund have, and that contact has indicated pretty much what Mrs. Hills stressed this morning, that there is not much interest in looking at the labor question at the USTR.

Mr. ORTMAN. We requested a meeting with both EPA and the Trade Representative's office. We had a meeting this week with them. Again, what we were looking for was some movement of recognition that these are issues that need to be addressed. To date, that movement is not forthcoming, and that is why we feel the administration is forcing us into this position.

Ms. GOLODNER. Our group has not had contact with the Trade Representative.

Chairman GIBBONS. I am sorry, I did not hear you.

Ms. GOLODNER. We have not had contact.

Mr. KINNEY. Mr. Chairman, one of the things that we did in our report is to include an appendix that has a list of some 30 or more medical doctors, environmental toxicologists, epidemiologists, all of whom are Spanish speaking, all of whom almost always at their own expense, have spent time in Mexico with Mexican universities, with labor unions, with businesses, with commercial trade associations and other places, trying to work with Mexican authorities to improve conditions.

In fact, recently, Baja, CA, and the University of California at Los Angeles have reached an exchange program where UCLA is going to be training environmental and occupational health inspectors. Of course, they do not have any equipment to do any inspections with, but at least it is a step in the right direction.

There are a lot of people who have given enormously of themselves to become real experts on what is going on in Mexico. You know, we would like to make that expertise available to the USTR and other people who want to do a good job of negotiating, you know, better relationships between our two countries. I would think that they would want to have access to that information and knowledge, but they do not indicate that in their interactions with us. Maybe it is because we are in Chicago, I do not know. I understand that there are two parts of the United States, inside the beltway and outside the beltway, and maybe we count less.

Chairman GIBBONS. Well, you have got a good Chicago connection right here.

Mr. KINNEY. I appreciate that connection.

Chairman GIBBONS. Mr. Pease.

Mr. PEASE. Thank you, Mr. Chairman.

Thanks to our four witnesses. It has been a long afternoon and I will try not to prolong it very much longer. I did want to genuinely thank all four witnesses for what I consider to be excellent testimony, very much needed in the context of the discussion we have been having today.

I just wish that there were more subcommittee members here to listen to your testimony, but you have provided a base of information, each one of the four of you, a base of information which ought to be on the record and which Congress ought to take into account before negotiating and entering into an FTA with Mexico.

Mr. Gibbons, you and I are both old enough to know that some decades ago, if we had a daughter who was of marriageable age and started finding a serious boyfriend, as her parents we would pay some attention to the suitability of the suitor as a marriage partner for our child. I think parents do not have a chance to do that as much now as they used to, but in those days, at least, parents would look to the education of the suitor and the income-making potential of the suitor and his sort of stability, personality-wise and so on.

It seems to me that we in the Congress have an obligation to view Mexico as a partner that we are about to embrace in a free trade agreement and that we ought to be asking some legitimate questions about the suitability of that partner to enter into an agreement with us.

The witnesses today I think have done an excellent job of giving us some enlightenment on the suitability of the partner. We have had almost no recognition by the proponents of the free trade agreement of the deficiencies of Mexico beyond the labor rate differential which then they proceed to dismiss summarily.

Mexico is a far different country than the United States, far different, and I think it is a legitimate question to ask, as we might a number of years ago about our own daughter's entertaining marriage, what is going to happen 2, 3, 4, 5, 6, 10 years down the road.

For example, will these reforms that we have applauded in the Salinas administration survive this administration? President Salinas, as we know, cannot succeed himself. In terms of the environment and worker standards, worker rights, child labor, we ought to be looking at Mexico and realize that Mexico is not the United States, not even close to it, and to ask the hard questions of what is going to happen if we enter into the kind of relationship we are talking about.

I think Mr. Kinney especially made some valuable points. Mr. Kinney, I was interested when you said a minute ago that Baja, CA, and a university in California have worked out an agreement to try to train people. Was that in the areas of inspecting workplace safety or adherence to environmental standards or what?

Mr. KINNEY. In both areas.

Mr. PEASE. Both areas. Is my memory correct that Baja, CA, is the only state in Mexico which is controlled by a party other than the PRI?

Mr. KINNEY. I am not a political expert in Mexico, so I could not answer that question. I do not know if any of us could.

Mr. PEASE. Well, I happen to know the answer or I would not have asked the question. The answer to that question is yes, and it is sort of significant to me that it would be Baja, CA, which would be interested in trying to enforce what labor and environmental standards there are.

Mr. KINNEY. I did not even know that.

Mr. PEASE. Finally, Mr. Chairman, I really do not have any questions for the witnesses, but I would just like to make a statement, again prompted by something that Mr. Kinney has reported to us, that Ambassador Hills this morning must have used the word "consulting" and "consult" at least 1,000 times in answer to every objection that was raised, every concern that was raised, it was, "Well, we will be happy to consult with the Congress or to consult with this industry or consult with this person."

I do not think there are enough hours in the day for USTR to do all the consulting that Ambassador Hills has claimed that they have done and plan to do. We have a report directly from Mr. Kinney, an offer from a very knowledgeable legitimate source, has not been accepted and taken up by USTR, so I think we need to be careful. When I heard the word "consulting," that we are going to consult on this or that, it seems to me that the USTR is maybe trying to put us off and lull us into some sort of false security that these legitimate issues that are being raised are somehow going to be addressed.

I asked the Ambassador this morning to give me what specific points she had in mind for responding to the concerns that I raised, I asked her that twice, Mr. Chairman, and she did not answer either time.

I again want to express my appreciation to the panel. I think their testimony has been just excellent and I hope they will continue to raise these questions, both here in the Congress and before the American public, because I think again this FTA issue is one that most Americans are really not aware of, and I would hate to think that sometime in 1992 they will wake up and find out that an agreement has been negotiated in record time, a matter of 7

months, and then rushed to the Congress on a fast-track authority and only then begin to consider the ramifications of it.

Thank you.

Chairman GIBBONS. Thank you, Mr. Pease.

I thank all the panel members for coming and sitting here so patiently today. I know it has been very tiring for you and you had very good testimony. I appreciate your contribution.

This concludes the hearings for today. We will resume tomorrow at 9:30, in this same room.

[Whereupon, at 5:12 p.m., the subcommittee adjourned, to reconvene at 9:30 a.m., Thursday, February 21, 1991.]

PROPOSED NEGOTIATION OF A FREE TRADE AGREEMENT WITH MEXICO

THURSDAY, FEBRUARY 21, 1991

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON TRADE,
Washington, DC.

The subcommittee met, pursuant to notice, at 9:37 a.m., in room 1100, Longworth House Office Building, Hon. Sam M. Gibbons (chairman of the subcommittee) presiding.

Chairman GIBBONS. Good morning, ladies and gentlemen. As all of you know this is a continuation of the hearings that we began yesterday on the proposal for a free trade agreement with Mexico, between the United States and Mexico. Such an agreement, if entered into, is a very, very important agreement for Mexico and the United States.

We had some very fine testimony yesterday, especially from our U.S. Trade Representative, Carla Hills. We have got a fine group ahead of us today, proponents and opponents. We might as well get started.

Our first witness is the Honorable William Middendorf. Mr. Middendorf has had a distinguished career in service to his country. I remember a lot of his service, particularly his service in the European Community as our Ambassador to the European Community, dealing with this matter of trade and development of the European Community.

So, Mr. Middendorf, why don't you proceed first?

STATEMENT OF HON. J. WILLIAM MIDDENDORF II, CHAIRMAN, POLICY COMMITTEE, MEXICAN/AMERICAN FREE TRADE ASSOCIATION, ACCOMPANIED BY DANIEL JAMES, PRESIDENT, MEXICAN/AMERICAN FREE TRADE ASSOCIATION

Mr. MIDDENDORF. Thank you, Mr. Chairman.

It's an honor to be able to appear as the witness for the free trade agreement, and to strongly support it. I represent the Mexican/American Free Trade Association, which was founded several months ago as part of the private sector effort to support this agreement.

The Mexican-United States Free Trade Agreement, and a possible North American Free Trade Agreement, including Canada, has to be viewed, I think, in a global context. The United States which was largely responsible for creating the GATT and benefited from it for

42 years, now faces the challenges of regional trading blocks that are being set up.

I think that we have to recognize that the U.S. policy has to be clear—continued free trade around the globe is the best way to increase economic opportunities for all peoples, and thus, of freedom.

I think Carla Hills pointed out the tremendous benefits of expanding free trade, Congressmen, around the world, and how much it means to the gross national product of the United States. We are suffering from a recession in this country, but one of the areas where we are doing extremely well right now is the increase in manufacturing exports. We are very competitive. We have increased our productivity in those areas by 3 percent in the last year, and with the dollar being roughly cut in a third or half with some of our major trading partners, we are now back in the ballpark, and America is back on the field doing an extremely good job.

We have to continue that momentum and not go back into the restrictive Smoot-Hawley action-and-reaction type of tariffs that we got into back in the 1930's. I remember fairly well how they crippled the economy.

The Mexican-United States Free Trade Agreement would be the first step in implementing, in effect, the Enterprise for the Americas Initiative brilliantly proposed by the Bush administration last summer, signaling to all Latins that domestic free trade reforms can spur democracy, social justice, debt relief, as well as economic development. Most of those countries down there are, in a sense, business oligarchies. Reformers are now looking at the free trade movement with the United States and Mexico as an example of how economic reform can bring about increased prosperity in Mexico. Collaterally it will have a significant impact on the countries further south, all of whom are watching these developments.

It will open up a large and growing market for United States goods and services in Mexico, which as Carla Hills pointed out, is a 90 million population—nearly the size of France and Britain together. Together with Canada and ourselves, it comes to about 370 million; greater in size than the European Community. The European Community is talking about Europe 1992 and the significance of that. We're looking at this as a North American Free Trade Agreement 1992, North America 1992, and a bigger market. We think this is going to have equal importance if it goes through, and I think it should.

I think, first of all, we ought to recognize that the FTA comes after much has already been done. President Salinas, over the last 5 years, has made substantial reductions in the tariff structures. He has reformed the economy substantially. He has privatized 700 out of 900 often bloated "parastatals" whose deficits were dragging down the economy. He has privatized the banks which were taken over by President Lopez Portillo in the early 1980's, wrecking the economy when Mexico reverted back to that old total state approach. But now, a lot has been done.

President Salinas has been one of the great reformers, in my opinion, in Mexican history—especially considering the previous lack of interest in reform.

When I served as U.S. Ambassador to the OAS, I was always very much at a disadvantage in our negotiations and discussions with Mexico because they had: First, such a hostile attitude towards the United States; and second, a very negative view on foreign direct investment from the United States, believing that it was colonization and expansion of our empire. They failed to recognize that foreign direct investment brings with it management skills and technology, which in turn opened up potential export markets back into the investing country.

In fact, there is a worldwide competition today for foreign direct investment. I have just returned from the Soviet Union and every republic there is screaming for some form of foreign direct investment. Of course, they have created very few of the private property or legal structures that would protect those foreign direct investments, so it's still a nonstarter for them. But in Poland, and in Bulgaria, I recently served on a commission of the U.S. Chamber of Commerce which produced a plan to privatize the Bulgarian economy under Richard Rahn's leadership. They are screaming for foreign direct investment; but so, too, is Mexico.

It is a sea change. I have just been absolutely amazed at this change brought about by President Salinas, and I think he should be very much recognized for this, after literally 100 years of fairly hostile attitudes toward the United States. So, politically this is a very good step forward.

He has done a lot of things. Mexico has been criticized for its drug policies, and they have a terrible problem. But there were more drug arrests in the year 1989, as they cracked down under Salinas' leadership, than in the 10 previous years.

On the environment, they have, in the last 8 years, had four major bilateral treaties on the environment with us and there is a tremendous recognition of the problem. Furthermore, most of the companies that have gone down there—large companies, like General Motors and others who have gone down there over the years—are carrying with them American standards on the environment. And if you want to go in today, to Mexico, to set up a company, you are going to have to conform with some very strict standards; very much similar to our standards here. I have seen some television coverage of babies dying from the effects of pollution in the rivers and what have you, but I think that is taken out of context to a certain degree. I'm not saying that there aren't a lot of abuses in the maquiladora projects, but the highly responsible American companies—and those are the ones who would be investing there for the most part—in my opinion, are very responsible and very aware of the environmental problems. They would have a public relations problem here, if nothing else. But the whole program down there is changing.

Furthermore, as we read yesterday, the Conservation International has just arranged a $4 million debt-for-conservation swap with Mexico similar to some of those that were done in Bolivia. That is a beginning; $4 million Mexican debt was bought for $2.6 million and they now are able to put that money back into the environment down there. I see a lot of progress in this direction. An openness, I should say, a sea change in attitudes of the Mexicans compared to the standoff hostile attitudes of yesteryear.

I remember introducing in 1984, in the OAS general assembly, a program calling for improved opportunities for foreign direct investment into Brazil, Argentina, and Mexico and the other Latin countries. It was desperately needed because living standards were so pitiful, and they needn't be. We were fought at that time—and this was the political side—by the Brazilians, Argentinians, and the Mexicans. They took me aside and asked me to withdraw the proposal, agreeing to take it up later. So I am so delighted, personally, to see these changes come about.

It is true that Mexican purchasing power is relatively low. They have been criticized because some of the salaries are less than they are here in the United States. But along the Rio Grande, per capita income, as was pointed out in the testimony here, is far greater than it is in say Chiapas Province, and some of the southern provinces. In fact, in all of Latin America you go around and you find people making as little as $100, $200, or $300 a year and it is all through total mismanagement of the economies. It has nothing to do with individual capabilities or characteristics.

It is a racist statement to say that these Mayan Indians or those Hispanics down there are incapable of earning the same kind of per capita incomes as we are, either because of their inabilities or their attitudes or traditions, or what have you. When they come to the United States they certainly make the same kind of money as we do, very, very quickly, because they work very hard, and they are very industrious and they are remarkably intelligent.

It is their systems that over the centuries have been biased toward socialistic central planning; something we even fostered after the war. We encouraged central planning concepts in Latin America, the Gunnar Myrdal fallacies—for which he received the Nobel Peace Prize—the concept of "father knows best" and "central government knows best," and import substitution, instead of export-oriented growth and other concepts. Years ago in a certain sense, our aid, almost always government-to-government, used to be tied to those failed programs. We have got to undo that and we will be undoing it very rapidly with the FTA.

It has been pointed out that the middle class in Mexico—a lot of people don't recognize there is a large middle class down there, and it is about a quarter of the population—remarkably that middle class down there has a purchasing power equal to that of Canada's. The middle class there is growing very rapidly, unlike most of the countries in Latin America which don't have much of a middle class, frankly. What is usually found are extremes of wealth and poverty—an oligarchy versus the impoverished peasants—and what have you.

There has been a lot of testimony yesterday about the maquiladoras and the 500,000 Mexicans that are employed there, and a number of discussions on that. I don't think I can add to that anything new, although I would also be willing to cover it if you wish.

There has been a criticism that the FTA will mean a loss of U.S. jobs. But a recent study shows that in Texas, in Hidalgo County, there was a gain of 22,000 jobs as an indirect result of the 20,000 jobs created in maquiladoras living right across the border. The charge is that the agreement would encourage more U.S. firms to relocate in Mexico but the Dallas Federal Reserve found that the

maquiladoras are a reflection of the globalization of production and the U.S. companies have a wide choice of locations world-wide wherever there are lower labor costs.

If the maquiladoras were shut down tomorrow, the jobs wouldn't revert necessarily back to the United States, although there are 100,000 or more jobs dependent on exporting to these maquiladoras. They would go to Taiwan or Korea or Singapore or other areas where there are the economies of scale and labor differentials that would give them a chance to compete. We have to compete today on a worldwide basis, and we have to be able to have a component of lower labor costs in some of these products or we're not going to be competitive at all.

Mexico right now offers special advantages for United States industry and commerce. The liberalization of the 1973 investment law permits us to own up to 100 percent of a business compared with only 49 percent formerly in unrestricted areas, such as lumbering, construction, maritime transportation, and financial services. Geographical proximity is another tremendous advantage and we can have products here or there within hours, as opposed to sometimes up to 2 weeks to arrive by ships from Asia.

Also the FTA would help substantially with questions of entry into this country of illegal immigrants. There has been talk that there are up to 9 or 10 million illegals in this country having jobs that might take away from union membership. The fact of the matter is that as we lift the standard of living there, there has got to be less inclination to hop up here, where the wage differentials are up to 10 times higher at present. I mean if I were living down there and I didn't have much of a prospect, I would try that border the first hour, and if I didn't get through the first day, I would get through the second or third day. That's an illegal act, but if my family was large and dependent on me, I would want to go where there is 10 times the income.

I think we are going to have to really make an effort to see that they benefit themselves where they are, and as they do so, they will be much better consumers for U.S. products where we are competitive.

Some people have suggested that we give foreign aid to Mexico instead of free trade. But 30 years ago the Mexicans rejected foreign aid from us and the USAID closed down its office down there in Mexico City.

I think we ought to recognize that there are three aspects of this whole question. There is the economic, which I have just touched on. There is the political side, some part of which I have touched on, because a secure and stable Mexico on our border is far more in our interests than an unstable Mexico. Mexico and we have a 1,800-mile border, and this is of vital interest to us. Then there is the security aspect, especially the tie-in with oil. We are hoping that since it looks like they may have to be importers of oil by 1997, that they will recognize that they have got to modernize Pemex's operations. They have not modernized it. They have diverted its profits over many decades into financing deficits from the deficit-ridden parastatals. New funds must come from people like ourselves to modernize the oil industry down there. It could be $7 or $8 billion, in time, for modernization costs. We should be per-

mitted to invest when they change the rules down there. They are already doing a lot with us in the oil service area down there. We are not yet there where we can actually participate in ownership of Pemex. That is going to come in time.

One of the things is that we now are importing 50 percent of our oil from around the world, and 25 percent from this very dangerous Middle East and that danger is not going to go away. The war over there is going to end shortly, in my opinion, but the Middle East is not going to be cured of its volatility, not in our lifetimes. It never will. There will be just a new set of players, that is all. I think we must encourage this whole idea of the security aspect. As a former Secretary of the Navy, I can tell you, it would be a very big problem in a hostile environment to maintain the sea lines of communication to protect the oil shipments from the Middle East.

We don't have the capability, if war broke out, to continue to import 50 percent of our oil from foreign sources. Oil from Mexico and Venezuela and others is important to our survival, in my opinion. I think we have to build on that.

One of the things about the FTA is that it institutionalizes economic reforms. As I mentioned, it sets an example for the rest of the Latins, too, but especially in Mexico. By institutionalizing, through the legislature, it would shift reliance from changeable executive rule. There have been at least 600 major expropriations in Latin America, beginning with Pemex in 1938, by short-sighted governments, discouraging foreign investment down there for many, many years. This would change the whole scenario in Latin America, break the code, so to speak, making it much more difficult to expropriate. There are consequences.

In fact, foreign direct investment from the United States has shifted in the postwar period to growth areas such as the Asian Tigers and Europe, because they have a good record on eliminating expropriations, versus the Latins who have had an abominable record up to fairly recently.

By institutionalizing these reforms, I think it will be explosive down there as we go forward with a reform-minded free market country, such as Mexico.

Finally, let's look at the negatives. Suppose we turn this down? We must recognize first that much has already been done. Their tariffs are down on a trade-weighted basis to only about 11 percent. They used to be way, way up there and most of the other Latin American countries are still way up there.

They are down to about where the Europeans are with us now. We are running a $9 to $10 billion surplus now with Europe and we are almost breaking even now in exports and imports with Mexico. So I think it's critically important that we not send a bad signal to them—that their reforms are not being recognized here.

I can see other high-risk areas. If Franz Andriessen and Arthur Dunkel hadn't come forward yesterday with solid proposals in the European Community on the common agriculture policy, agreeing in a sense to the yardsticks that Carla Hills had suggested, I think that we could have been looking at two negative situations if fast-track negotiations faltered.

We could still break up into bilateral negotiations with a number of countries if GATT and the Uruguay round, in which we had so

much hope, fall apart. If mixed in with this the Mexican Free Trade Agreement falls through, I can see a tremendous double negative. As I mentioned there were three root causes prolonging the terrible depression in the early 1930's: one, squeezing credit; two, raising taxes, an abominable idea at that time; and three, the Smoot-Hawley tariff which raised tariff barriers.

Taking a negative, worst case scenario, supposing we had continued or still do have a squabble over the Common Agricultural Policy? Suppose we have a squabble over the meat hormones issue, which is still a burning issue or with Airbus, and we retaliate and they retaliate back and forth? There goes our big surplus with Europe. Barriers go up. The Cairns Group gets into the act, and we don't get the intellectual property rights, and we don't get services and all the others, and then we reject the Mexicans and their barriers go up. Coupled with the recession that we have now, it would frankly be an amateur-night operation on our part.

Mr. Chairman, I strongly urge the success of this agreement and I really hope and pray for the good of the United States that this has success.

Thank you.

[The prepared statement and an attachment follows:]

TESTIMONY OF HON. J. WILLIAM MIDDENDORF, II
MEXICAN/AMERICAN FREE TRADE ASSOCIATION

Mr. Chairman and Members of the Subcommittee, I am pleased to testify in favor of the proposed negotiation of a Free Trade Agreement with Mexico. I speak on behalf of the Mexican/American Free Trade Association, a private sector organization which has been formed exclusively to help build a consensus for such an agreement and the fast-track procedure needed to expedite it. MAFTA is binational in its composition, and reflects considerable first-hand experience with the problems facing both neighbors as they approach this issue so crucial to their future.

I personally have had the honor to serve the United States as Ambassador to the Organization of American States, where I had the opportunity to deepen my understanding of U. S.-Mexican relations, and subsequently as Ambassador to the European Economic Community, which gave me an appreciation of the trade and economic problems it faces. I am presently Chairman of Middendorf & Co., an investment firm with interests in banking.

The Mexican/American Free Trade Association is convinced that a Free Trade Agreement between Mexico and the United States can only bring great benefits to both neighbors over time. Inclusion of Canada in a trilateral arrangement would enhance those benefits for all concerned.

It is important to look at a North American Free Trade Area in a global context. For forty-two years, the United States benefited economically and politically from the reduction of trade barriers under the General Agreement on Tariffs and Trade. This model of economic growth and opportunity through trade was largely a creation of the United States and succeeded mainly because of U. S. leadership.

Today, the United States faces a different challenge. International trade is at a crossroads with the stalled GATT talks in Brussels. It is said that the world is moving toward regional trade blocs that will inevitably stifle economic growth, and may fragment the world politically. In this era of uncertainty, our policy should be clear: continued free trade around the globe offers the best means of increasing economic opportunities for the world's people, and thus, of freedom. A North American Free Trade Agreement will go a long way toward promoting that policy.

A Free Trade Agreement with Mexico will be the first step toward implementing the Enterprise for the Americas Initiative the Bush Administration announced last June. The benefits Mexico will receive under the free trade regime will send a clear message to other Latin American countries that domestic free market reforms, and free trade across borders are the best way to promote social justice and democracy, reduce international debt burdens, and insure Inter-American security. The FTA with Mexico will serve as a model for free trade with other Latin countries, opening up U. S. export opportunities to previously closed and underdeveloped markets. Economic development in Latin America is also of strategic importance to the United States Events in the Gulf have shown that developing a closer strategic oil partnership in this hemisphere is in our national interest. Such a partnership will be much easier to develop within the context of overall economic integration between the United States and Latin America.

A North American Free Trade Agreement can also put the GATT back on track. Once the European and Asian countries see the benefits Mexico receives under free trade with the United States, they will be more willing to play by the free trade rules that will give them better access to U. S. markets. The two U. S. policies of supporting GATT, (which aims at reducing global trade barriers) and supporting Free Trade Agreements (which reduce all trade barriers between specific countries), are not contradictory. Creating a North American Free Trade Area may be the best way for the United States to persuade GATT members to either remove trade restrictions or lose out on the benefits of freer trade with the United States.

Few can argue that the open and free trade policy the United States has followed since World War II not only allowed the country to lead the world in high technology but also promoted economic growth and democracy throughout the world.

Free trade with Mexico will open up a large and growing new market for U. S. goods and services. Mexico's population approaches 90 million -- almost equal to the combined populations of France and Great Britain -- and by the year 2000 is projected to reach more than 100 million. Together with the 250 million people in the United

States and nearly 30 million in Canada, we are talking of a potential North American market totalling 370 million persons -- greater than the total of the European Community.

True, the purchasing power of the Mexican people is much lower than that of Americans, which means that they are able to buy fewer U. S. goods and services than, say, our other contiguous neighbors, the Canadians. But most analysts agree that the signing of a Mexico-U. S. Free Trade Agreement is bound to increase exponentially the flow of goods and services across the border within a relatively short period of time, and that it will drive total Mexican economic production to higher levels than hitherto. Inevitably, that will be translated into more jobs and higher wages for the average Mexican worker, thus raising his purchasing power.

The same will apply to the Mexican middle class. It is not generally appreciated that Mexico has a substantial middle class, which is estimated to constitute about one-fourth of the total population. This means that well more than 20 million Mexicans today have as much purchasing power as nearly the entire population of Canada. Given the stimulus of free trade -- and equally or more important, the continuance of the Mexican Government's free-market policies -- we can expect to see an expansion in the economic activities of small and medium businesses and professionals and a corresponding rise in total middle-class income. Clearly, they would become major customers for U. S. goods and services.

A microcosm of this process exists today along the length and breadth of the U. S.-Mexican border. From Reynosa, Tampaulipas in the east, to Tijuana, Baja California in the west, a total of 1,834 assembly plants -- *maquiladoras*, in Spanish -- have sprung up on the Mexican side over the past dozen years. U. S. companies send them partially finished products from TV sets to defense hardware and they, in turn, finish and export them to the U. S. side with only a value tax added. These maquiladoras employ about 500,000 Mexican workers. Opponents of free trade speak scornfully of the low wage levels in maquila plants, comparing them to much higher American wages, when a realistic and fair comparison should be made with much lower levels in other parts of Mexico. It is sadly true that they earn an average of only six dollars a day, but that happens to be double the wage of workers in southern Mexico and much more than the average Mexican peasant earns.

Of course every effort should be made to increase the income of maquila workers, but the fact remains that their purchasing power has been rising, resulting in more business for the U. S. side of the border. The maquiladoras are also, contrary to unfounded attacks, responsible for creating new jobs in the United States.

Critics of a Mexico-U. S. FTA argue that it will only encourage U. S. companies to locate on the border where they can take advantage of cheap labor, thus causing the loss of more jobs for Americans and constituting a drain on our economy in general. But a study on "The Economic Impact of Maquiladoras on the McAllen-Hidalgo County Area" (in Texas), made by M. Ray Perryman Consultants, Inc., found that:

"The 20,691 direct jobs, which are virtually all located in Mexico [in the maquiladoras], are responsible for the creation of approximately 22,000 indirect positions in McAllen, Pharr, Edinburg, Mission and the proximate region. Consequently, each direct maquila employee generates slightly more than 1.06 new jobs in Hidalgo County."

The Perryman study found that, in addition, the economy of Hidalgo County, Texas, benefits in at least three major respects: 1) the household expenditures of maquiladora management personnel residing in the county; 2) the increase in retail sales in McAllen, generated by maquila workers in Reynosa, just opposite; 3) the travel expenditures connected with corporate activity in the maquiladoras. The same beneficial results, allowing for some variation, are evident in other U. S. border towns located opposite Mexican maquila plants.

As for the argument that a Mexico-U. S. FTA will result in the location on the border of more U. S. firms, an article in the Federal Reserve Bank of Dallas' Review, "Mexican Maquiladora Growth: Does it Cost U. S. Jobs?", points out that the maquiladora phenomenon must be considered in global, rather than local terms. It reflects, observes author William C. Gruben, the process of the internationalization of production, which has vastly increased the number of possible locations of U. S. companies. He concludes :

"....the econometric results...suggest that maquiladora growth is about as sensitive to differentials between Mexican and PACNIC [Pacific Newly Industrialized Countries] wages as it is to differentials between Mexican and U. S. wages. This result

suggests that, if all of the maquiladoras were shut down tomorrow, many maquiladora jobs would not return to the United States. Instead, many of these jobs would go to Taiwan, Hong Kong, Singapore or Korea...."

A replication of the maquiladora experience in the interior of Mexico, but without the downside of accompanying environmental deterioration -- an issue I shall address later -- can develop a substantial market there. But a Mexico-U. S. FTA is not synonymous with more maquiladoras, as some critics seem to believe. In that connection, they make the doubtful charge that some of our biggest companies -- naming General Motors, Ford, Chrysler and GE as examples -- have fled to Mexico to escape higher wages and costly benefits for workers in the United States. This is absolutely untrue. The fact is that those companies and many others settled in Mexico as far back as World War II, before the maquiladora phenomenon had appeared, and therefore could not have caused U. S. jobs to disappear. Quite the contrary, they have opened up new jobs for Americans in the course of providing employment for Mexicans, and have made a significant contribution to the modernization of Mexico

The position of the Mexican/American Free Trade Association is that free trade and investment will encourage more U. S. companies to do business throughout Mexico, provided that its free-market policies continue, not just at the border. After all, some 80 per cent of Mexico's population lives well to the south of the border. Opportunities there for trade and investment have scarcely been tapped.

The Mexican market offers special advantages for U. S. industry and commerce. Foremost among them, perhaps, is the wide range of investment opportunities free trade will open up. Since he took office in December 1988, President Carlos Salinas de Gortari has liberalized the 1973 Law to Promote Mexican Investment and Regulate Foreign Investment, and foreigners are now permitted to own up to 100 per cent of businesses in certain "unrestricted sectors" whereas previously ownership was restricted to only 49 per cent. Among those sectors are lumbering, construction, maritime transportation and a range of financial services.

Welcome though Salinas's liberalization of foreign investment is, we must keep in mind that the restrictive 1973 law remains on the statute books and can be invoked if necessary. A growing body of Mexican opinion, however, is pressing for abrogation of the law entirely -- which our negotiators should point out is the fundamental solution to the problem. Until then, investors must be wary while taking advantage of the opportunities offered by Mexico. That is why the creation, now, of a U. S.-Mexico-Canada FTA is so important. Once the FTA becomes Mexican law, a new dynamic, based on international competition,will emerge in Mexico. A strengthening of the rule of law, brought about by free trade, will establish a sound foundation upon which Mexicans will create economic freedoms for themselves and economic opportunities for Americans.

Another major advantage for investors is Mexico's geographical proximity, which means that Americans doing business there can look forward to lower transportation costs. This is especially true of trucking, where again the Salinas Administration has abolished many old restrictions.

Further, Mexico is rich in natural resources, particularly oil. Mexico increased its oil exports to the United States soon after the Persian Gulf crisis broke out, enabling us to add considerably to our Strategic Petroleum Reserve, in a gesture of friendship. Although oil has been declared off limits to foreign private investors since it was nationalized in 1938, it is hoped that that will change as Mexico develops a free-market economy which is open to the world.

Clearly, the greater the U. S. investment in Mexico, the greater the benefits that will accrue to American workers and the U. S. economy in general.

Meanwhile, a benefit not readily apparent is that as more Mexicans acquire new jobs -- and new skills, which will automatically raise the value of their work -- and earn higher pay, they will be less inclined to seek work in the United States. U. S. labor has much more to fear from illegal Mexican immigrants taking jobs away from Americans -- as the latest statistics show -- than from low-paid workers who stay home. Due to massive unemployment and accompanying rapid population growth in Mexico, the number of poor Mexicans who cross the border illegally in search of work has risen considerably in the past year.

We believe that if organized U. S. labor were to work together with us to negotiate an FTA with Mexico, it would help create a major deterrent against illegal migration and directly save U. S. jobs. Since both the United States and Mexico have agreed that the free flow of labor will not be part of any FTA, U. S. organized labor in the

service industries should not be fearful of a massive wave of cheap labor coming into the United States. That implies, of course, helping to get the fast-track procedure on track, right now.

Still another benefit of free trade with Mexico would be as a hedge against recession. With the addition of nearly 90 million people to our market, U. S. enterprises might not be saddled with high inventories because they would be selling their goods and services to Mexicans instead of relying on American buyers. This would mean higher exports, a lower trade deficit, and a faster climb out of recession to the benefit of all U. S. citizens.

Opponents of a Mexico-U. S. FTA often dwell upon the "huge differences," as a witness told the Senate Finance Committee recently, between the United States and Mexico that "make the establishment of a free trade area both damaging to U. S. workers and of little benefit to Mexican workers." He suggested that, instead of an FTA, "foreign aid" should be offered to Mexico along with "development planning." But that would be forcing down Mexico's throat a program that it does not want: More than three decades ago Mexico rejected foreign aid, and made the U. S. Agency for International Development shut down its office in Mexico City.

Worse yet, the naysayers would treat our neighbor virtually as a colony when they demand, as 37 of your colleagues did in a letter to President Bush, that the Mexicans make "sweeping changes" in their society as a condition for negotiating a free trade agreement. Among those changes are "more fair and democratic" elections and "pluralism" in general.

We happen to agree with these objectives and we would like to see Mexico adopt the necessary changes to become a full-fledged democracy as soon as possible. But we do not agree that that should be made a condition for negotiating and signing an FTA. Mexico is a sovereign nation and we must respect its right to change, or not to change, as it sees fit. To demand that it conform to our political criteria in order to qualify as a partner in free trade is to infringe upon its sovereignty, and to deny it the dignity and respect it merits.

Americans have trampled on Mexican sensibilities too often in the past, and the unfortunate result has been long periods of ill feeling between the two neighbors. In the last two or three years a decided change for the better -- an "era of good feeling" -- has evolved in relations between Mexico and the United States. We need to encourage its further development so that both neighbors can live in peace and harmony with each other. But if we make demands that slight our neighbor's sovereignty, within the context of negotiating a free trade agreement, we will not only jeopardize the fate of FTA but we will invite a return to the mutual bashing of the past. Surely none of the 37 co-signers of the aforementioned letter, nor any of the remaining 500 members of the United States Congress, would wish to adopt a position that would set back bilateral relations for a long time to come.

Other conditions that FTA critics would impose upon Mexico include the incorporation in the agreement of a "social charter," as the 37 letter-signers term it, to address environmental, health and labor issues along with political ones. Again, they are right. The Mexican/American Free Trade Association agrees that such problems need to be addressed. Pollution caused by industrial waste is pronounced along the Mexican side of the border, as are other hazards to the health and general well-being of residents on both sides. But to demand that the Mexican Government clean up the environment as a condition for joining in a trade agreement is, again, an implied infringement of its sovereignty. Such demands are offensive and, in the end, counterproductive.

Bilateral talks and working groups between the United States and Mexico concerning environmental, drug-trafficking, commerce and labor issues have been an ongoing phenomenon since Mexico began liberalizing its economy in 1986. The best way to deal with these issues might be a discussion of them apart from, and independently of, the trade negotiations. Such "separate talks," as a recent *Journal of Commerce* editorial was entitled, should satisfy critics of FTA without jeopardizing free trade. As the editorial stated:

"Mexico's land, air and water should be protected from careless industrial development. But making the environment a bargaining chip in the trade talks could slow down -- and possibly jeopardize -- an agreement. Pursuing separate trade and environmental negotiations offers both immediate and longer-term benefits."

Mr. Chairman, I would appreciate it if the full *Journal of Commerce* editorial, a copy of which I have with me, could be inserted in the record along with my testimony.

President Bush should be encouraged to devise an appropriate means for initiating environmental talks with his Mexican counterpart, President Salinas, at the earliest moment. But that should not delay action by Congress to approve the fast-track procedure for negotiations on the proposed Mexico-U. S. Free Trade Agreement. We hope that you will do so, and overwhelmingly, as a a vital step toward the permanent improvement of relations between the two neighbors.

Mr. Chairman, a free trade agreement between the United States and Mexico represents an unparalleled opportunity to build on the good will that currently exists. I would urge you and your colleagues to give the Presidents of the two neighboring countries a green light by extending the fast-track authority and giving our negotiators the support they need to do the job.

Thank you, again, for the opportunity to testify.

The Journal of Commerce
and Commercial

Separate Talks

SHOULD ENVIRONMENTAL safeguards be included in the proposed U.S. free trade agreement with Mexico and Canada? Negotiators are wrestling with that question as they frame the agenda for the landmark talks, expected to begin this summer.

Protecting the environment is a growing concern for many Americans, and that concern should not stop at the southern border. But the trade talks, which are bound to be tortured, are not the best place to seek that protection. Negotiating a separate environmental accord with Mexico, apart from the trade discussions, could achieve the same results more quickly and without needlessly delaying progress on both fronts.

Economic development already is taking its toll on Mexico. U.S. assembly plants operating just across border, the so-called maquiladora facilities, have been polluting the environment, drawing protests from environmentalists in both countries. But Bush administration negotiators are resisting calls to make environmental concerns part of the trade talks, convinced that they would hopelessly complicate the process. The administration has good reason.

Mexico's land, air and water should be protected from careless industrial development. But making the environment a bargaining chip in the trade talks could slow down — and possibly jeopardize — an agreement. Pursuing separate trade and environmental negotiations offers both immediate and longer-term benefits.

President Carlos Salinas de Gortari has made a historic decision to embrace free trade as the path to economic development, rejecting the politically expedient option of protectionism that many less developed countries choose. It is a choice that must be validated by his people. It is also a choice the United States could not have made for Mexico.

The free trade talks represent a change in the way the two countries see each other. The justifiable suspicion Mexico has long harbored toward the United States has been tempered by a respect that allows Mexicans to see the opportunities in greater access to U.S. markets. The United States, for its part, must treat Mexico as an equal, not as a poor relation.

In the same way that Mexico must determine its own trade policy, it also must choose whether its environment will be sacrificed as it pursues development. It is a decision no less difficult than the one to pursue free trade. The United States can play a constructive role in persuading Mexico to make the wise choice of protecting the environment. But it is not a policy that we can force on Mexico as part of a free trade agreement, any more than we could force unilateral concessions in the trade talks.

Another, more practical reason for pursuing a separate environmental treaty with Mexico is that a crowded trade agenda could give short shrift to environmental issues. Or worse, important environmental benefits could be bargained away. Better to have complex environmental concerns evaluated by experts from both countries. Finally, further complications could arise through the involvement of Canada, where years of complaints over U.S. environmental policies could be rekindled.

President Bush should announce that he will pursue an expedited schedule for concluding an environmental treaty with Mexico — roughly on the same schedule as the North American free trade talks, which could be completed by the end of the year. Such a schedule keeps the pressure on the two countries to complete the environmental treaty without the risk that it will sidetrack the trade agreement. It also should satisfy those who fear the Bush administration is trying to close off debate on the environment. If both agreements come up for congressional ratification at the same time, there will be ample opportunity to debate their merits.

Free trade won't mean much in a poisoned world. But economic and environmental issues each carry their own political baggage. Better to deal with them separately and give each its due.

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Chairman GIBBONS. Thank you.
Mr. Bruton.

STATEMENT OF JOHN M. BRUTON, EXECUTIVE VICE PRESIDENT, AMERICAN CHAMBER OF COMMERCE OF MEXICO, A.C.

Mr. BRUTON. Thank you, sir. I appreciate the opportunity of being here and to appear before the subcommittee on behalf of the American Chamber of Commerce of Mexico, to present our views on the proposed negotiation of a North American free trade agreement.

As suggested in the hearing notice, I will not repeat the views presented by our President Chris Marshall in his testimony here on June 14, since that statement is already a part of the record.

The AmCham, representing 85 percent of American investment in Mexico, favors a free trade agreement. An FTA will benefit United States producers through increased security for United States exports and investment and a significantly improved competitive position against third country imports.

Increased Mexican production will benefit United States industry, due to the high percentage of United States content used in Mexican manufacturing. Finally, the United States economy will benefit from the dynamic growth of the Mexican import market.

There is no question that an FTA is in the economic interests of United States subsidiaries in Mexico and their parent companies. Besides anecdotal evidence, the AmCham is conducting a survey of its members. A few dozen questionnaires have been returned and all of these companies are registering favorable to the concept of a free trade agreement.

These subsidiaries strongly favor an FTA, since it could bring greater certainty to the operating environment in Mexico. Like most groups, AmCham Mexico has rightly praised the vast economic and regulatory reforms of the Salinas administration. However, as you know, in the case of the foreign investment regulations, these are administrative reforms that do not have the permanence of law. An FTA covering investment will increase the permanence of these reforms and, therefore, be positive. There has also been palpable disappointment in the delay in the enactment of a new intellectual property protection law, but we are optimistic that it will be expeditiously enacted. The FTA will improve the security of any new IPR law.

Another question of certainty deals with tariff levels. Although Mexico's tariffs are now low, it retains the right under the GATT to increase import duties to 50 percent on most products. This places a burden of uncertainty on American companies exporting to Mexico and on companies that rely on American imports in their Mexican operations. Tariff commitments in the free trade agreement would eliminate this uncertainty.

United States exports to Mexico jumped from $12 billion to an estimated $28 billion in 1990, with a conservative estimate of expected growth to more than $38 billion in 1994. That is $12 billion in 1986 to $38 billion estimated in 1994.

Mexican growth generated by the free trade agreement would further enhance Mexican demand for imports, making the United

States total much higher. The United States share of the Mexican import market is currently over 70 percent. It would also increase as a result of the preference created for American over third-country imports. This preference is particularly significant, when one realizes that Mexico will still have the right under the GATT to raise duties against third-country imports up to levels of 50 percent, while duties on American products will be bound at zero after the transition period of the FTA.

The excellent comprehensive report by the International Trade Commission might, if anything, have been too conservative in not estimating the advantages from these preferences. In the European Community, such preferential access has been an important factor in the growth of many European companies. The same will apply to American companies doing business in Mexico.

United States based production will benefit from growth of American production in Mexico destined for sale in the Mexican domestic market. Also, production in the United States will benefit from any displacement of third-country suppliers by exports from Mexico resulting from an FTA. This is because of the high percentage of American components that American companies already use in their production in Mexico. AmCham Mexico randomly asked several companies for the percentage of United States inputs used in their Mexican operations, and I will quote just a few:

Procter & Gamble, with sales in the area of about $500 million in Mexico, uses 28 percent United States components;

Unisys of Mexico, with $82 million in sales, uses 35 percent;

Cyanamid of Mexico, with $58 million in sales, uses 65 percent;

3M, with $80 million in sales, uses 80 percent;

Fasson of Mexico, a subsidiary of Avery Dennison, with $6 million in sales, uses 80 percent United States inputs; and

Texel, a subsidiary of Pliana, a maker of nonwoven fabrics in North Carolina, $38 million in sales, using 95 percent United States inputs.

Obviously, one should not generalize too much, but my experience of over 30 years in Mexico, confirmed by our calls in the past few days, is that use of United States inputs amounting to one-third or more, to more than two-thirds, is common.

Mr. Chairman, it is a privilege to appear before the Trade Subcommittee. I want to offer this subcommittee the assistance of AmCham Mexico and its staff in any specific inquiry that they might have with regards to business-related conditions in Mexico, and the effect of an FTA on United States companies operating there.

Thank you very much.

Chairman GIBBONS. Thank you, Mr. Bruton.

Dr. James, do you have anything you want to say?

Mr. JAMES. I would like to point out, Mr. Chairman, that a letter signed by some 37 members of Congress addressed to President Bush demanded that Mexico make "sweeping changes" in its society as a condition for considering it as a partner in the proposed Mexico-United States Free Trade Agreement.

I would like to point out further, that this would be tantamount to an infringement upon the sovereignty of a neighboring country. It is up to Mexico itself to make those changes. Some of us here

would like to see them made, there is no question about it. There are lacks in the Mexican political system and, to some extent, in its treatment of human rights issues, and so on, and we fully agree with those concerns.

But to demand of the sovereign nation that is our neighbor, that as a condition for joining with us in FTA we force down their throats these changes, I would say is insulting, as well as an infringement of their soverignty, and I do not think we have the right to do that. I do not believe that the Members of Congress who signed this letter, if they give it further consideration, would take the same position today as they took in the letter.

They also demand there that a "social dimension" be incorporated into the proposed Mexico-United States FTA. Again, they are talking about environmental issues, labor issues, health issues, and so forth, all of which we agree with. These are legitimate concerns and efforts should be made to clean up the environment, especially along the border, which is a result of industrialization; the waters of the Rio Grande and of cities along side it have been polluted. There is no question about that.

Again, we submit that it is unfair, and it is kind of wielding a big stick, to demand that the neighboring country institute all of these changes, incorporate a "social dimension"—and I quote directly from the letter—as a condition for being part of FTA.

Now, what is the solution to that? If we all agree that these are valid concerns that should be addressed, why can we not separate the two things? Let us consider FTA on its own merits as a trade agreement, just as it says, which deals with tariffs and duties, rules of origin and all that sort of thing, separately from these other concerns, the social dimension, sweeping changes, if you will. Deal with them separately.

We of the Mexican/American Free Trade Association believe that we should have separate talks on these issues, apart from each other. Let us all see a vote, an overwhelming vote in favor of extension of the fast track on the free trade agreement, and let us at the same time conduct discussions with the Mexicans on the other issues of a social nature.

Perhaps President Bush should be encouraged to devise an appropriate means for initiating such talks on environment and related issues with his Mexican counterpart, President Salinas, whom I feel would probably be sympathetic to that idea.

As a matter of fact, as Ambassador Middendorf pointed out earlier, efforts are already being made on the executive level to effectuate changes in the environmental conditions in Mexico City, for example. EPA people and their Mexican counterparts are already working together to try to resolve that issue. Now, it may not be resolved in our time, but at least we can make advances in that direction.

I submit, therefore, that if a separation could be made between FTA and the social, labor and health issues, that we would be better served as a country and we would be better off in our relationships with Mexico. Now, too often in the past, as we know, a lot of Mexico bashing has gone on here and a lot of America bashing has gone on there.

For a change, we now see in the last 2 or 3 years an era of good feeling having developed between the two countries. Now, why should we, as this era of good feeling is just developing, why should we take a chance on upsetting it and reverting back to the way things were before, when there was a lot of unpleasantness and even enmity between the two countries on the issues that can be resolved peacefully with them, instead of trying to force something down their throats?

The Mexicans have sensibilities like the rest of us. They do not like to be told by some bigger, more powerful neighbor, "Hey, you, you've got to adopt this, or else," and that is substantially the attitude of the signers of this letter.

I would, therefore, hope that the signers would reconsider and that all of the Members of Congress would regard these as two separate questions, FTA on the one hand and the social dimension on the other, and let us proceed forthwith.

Thank you, Mr. Chairman.

Chairman GIBBONS. Thank you.

I am going to refrain from asking questions right now, because we have got a busy day and I think most of my questions would be repetitious.

Mr. Schulze, do you have questions?

Mr. SCHULZE. Thank you, Mr. Chairman.

I would like to thank the panel for their presentation, especially Bill Middendorf, to get his perspective from his point of view. Bill has been before this committee and before Congress for many, many years, and his public service is well known.

I share, Bill, your enthusiasm and hope for a United States-Mexico FTA. I have for many, many years felt that we need a North American trade zone, including Canada, the United States and Mexico. In fact, before the administration spoke about the South American aspect of that expansion, I had advocated such an eventual move.

My concern about the Mexico-American FTA is that we do not lose sight of the fact that this agreement has to have a fair degree of equity and that we cannot just deal with Mexico as some little baby brother who is going to receive everything and not give anything. We want to have a level playing field and deal with them as relative equals, in spite of the fact that there are differences in size.

I just wonder if, in your opinion, you think they are prepared to give, as well as take, in negotiations as a mature partner might be.

Mr. MIDDENDORF. Right now, Congressman, I appreciate those remarks. Right now, their trade-weighted tariffs run around 11 percent and ours are 3.6 percent, and under the FTA they will move to zero, with certain exceptions, I am sure. These will be very difficult negotiations, by the way. I think they will be more difficult technically than those with Canada, but I think they will be giving a substantial amount in those negotiations.

As I said, if they open up capital investments in companies like Pemex and others, there will be a hell of a payoff for both them and us.

Mr. SCHULZE. How about opening their "Buy Mexico" policies in Pemex and other things?

Mr. MIDDENDORF. As I was saying, Pemex is the main one, and I think they need billions and billions of investment there. They do not have it themselves and they are going to have to get it from foreign direct investment.

Mr. SCHULZE. Do you think that should be one of the goals of the negotiations?

Mr. MIDDENDORF. It would be an important element, yes.

Mr. SCHULZE. Bill, I am concerned that, with the Canadian Free Trade Agreement, we took tariffs at existing levels and said we were going to phase them out over a 10-year period. Now, if the Canadian tariffs happen to be three times or four times higher than ours, well, they were phased out so that we were really disadvantaged for that total 10-year period.

Mr. MIDDENDORF. Yes.

Mr. SCHULZE. I realize that we cannot level everything off before we start, but it seems to me we should make some attempt at equity, before we start the phaseout period. Do you have any thoughts on that proposal?

Mr. MIDDENDORF. Do you have any thoughts on that, John?

Mr. BRUTON. I think one thing, Congressman, if I could, at Ambassador Middendorf's invitation, comment on that, I think you have got to take a look at the fact that it is not a question of a giveaway, when you consider the dynamics of the trade that already exists, and I think that the concept of phasing out is built into the game plan and will be part of it.

I think it is going to be difficult on the Mexican side, on the other hand, and it will be difficult on our side, but that should be the goal, the eventual phaseout, and I think it is a realistic goal.

Mr. SCHULZE. I agree with that, but that is not my question. My point is, if Mexico has a tariff of 15 percent on one product and we have a tariff of 3 percent in that same area, we ought to make some attempt to equalize, because as they phase out over a 10-year period from 15 percent, and we phase out from 3 percent, there is always going to be a huge inequity over that 10-year period.

It seems to me that we should make some attempt at leveling. As I said, we are not going to get everything equal all the way along, but there has to be some degree of leveling before we start the phaseout period, and I think that is quite reasonable.

Mr. MIDDENDORF. I think it is not only reasonable, but this will obviously be a good part of upcoming negotiations.

I remember, Congressman, having participated during the negotiations concerning the entrance of Spain and Portugal into the Common Market, and the impact it would have on United States trade. At the time it was thought it would be some years before Spain and Portugal would become a viable market. The prevailing wisdom was that they were all manana types and they would not be able to compete with the more aggressive Germans up north.

Actually, Spain and Portugal have had some of the fastest growth rates in the Common Market since, growing in some years at 5 percent a year, which is phenomenal.

Mr. SCHULZE. I think President Salinas sees this and understands it. Another question, do you think the average Mexican—we have a lot of problems up in Canada after that agreement and little

storms here and there—do you think the average citizen of Mexico understands the long-range benefits of such an approach?

Mr. MIDDENDORF. Well, they do not have the communications revolution we have got here in this country, and we even have a lot of trouble here in this country with public understanding of economics. You know, it took us a long time before we even knew we were in a recession. We declared that we were in a recession sometime in October but anybody that is in the real estate business would tell you that occurred about a year before that, and it is a depression in many other industries, especially financial institutions.

The hardest thing I learned in business and in Washington about economic trends is to be able to predict the past; to identify what just went on. As it comes to Mexico, obviously we are talking about the intellectuals in Mexico City, Monterrey, and a few other critical areas, but I do not think the average——

Mr. SCHULZE. But do you think they are convinced of the——

Mr. MIDDENDORF. Oh, yes. The ones that I have talked to—of course, the chairman of the chamber could tell you much better—everybody I have talked to is enthusiastic about it now.

Mr. BRUTON. It is not totally uniform. It would not be, because the more affected sectors are walking more slowly than those that see the growth potential. There is an old quote that says "nothing clears the mentality as much as the lack of alternatives," and I think this is an opportunity that Mexico has got and I think that it is viewed as an opportunity.

Mr. SCHULZE. Thank you. Thank you, gentlemen.

Thank you, Mr. Chairman.

Chairman GIBBONS. Mr. Jenkins.

Mr. JENKINS. Thank you, Mr. Chairman. I only have one or two questions.

I want to thank the panel for your appearance and your excellent presentations.

Mr. Ambassador, you indicated that Mexico has made some inroads in permitting foreign investment, that they have reduced barriers to foreign investment, and now I believe in certain sections you can invest a greater percentage, is that right?

Mr. MIDDENDORF. That is right, 100 percent now in some of the critical industries, as against the old 49 percent rule. That 49 percent rule itself was a big improvement over what it was 8 or 10 years ago, when nobody could get in anywhere.

Mr. JENKINS. Are you involved or is your firm involved in that type of investment at all, or are your clients?

Mr. MIDDENDORF. No, I have no interest, period. I do not have any clients or what have you.

Mr. JENKINS. So, you do not know of any difference——

Mr. MIDDENDORF. I run a bank in Beltsville, MD, and regarding our lending activities, we consider a foreign loan a loan in West Virginia. [Laughter.]

Mr. JENKINS. So, you are not directly involved, nor do you know whether or not there are great difficulties in making such an investment in Mexico?

Mr. MIDDENDORF. I am not familiar with all the mechanics, Congressman. My bias is strictly from a free-trade point of view, but I do know the explosive potential from free trade.

Mr. JENKINS. At any rate, it has improved in the last 8 or 10 years?

Mr. MIDDENDORF. Dramatically. They sometimes give out Nobel Peace Prizes for broken down economists around the world, but I think President Salinas ought to be considered for one instead for what he is doing for the Mexican people through opening up the economy.

Mr. BRUTON. Mr. Jenkins, if I could interject——

Mr. JENKINS. Surely.

Mr. BURTON. From firsthand knowledge, the administrative reforms of the foreign investment code have been dramatic and they have stripped away a great deal of duplication and standing in line, and it has gotten a lot better. Our hope is that these administrative reforms can be formalized into law, as would be the case under an FTA.

There is absolutely no doubt that the situation is much enhanced from the period of 1972 to about 1986. There was a question of regulating foreign investment, and now it is clearly a question of promoting foreign investment and the change is notable—$3.7 billion last year.

Mr. JENKINS. I understand that commitments have been made or that there are indications that a further opening up in that direction should be forthcoming, is that right?

Mr. BRUTON. Yes, sir.

Mr. JENKINS. Some of the subsequent witnesses—I have scanned over their testimony—are extremely concerned about the wage differentials that now exist between Mexico and the United States, but from your perspective, you do not see that as a problem. I have looked over the testimony of not only organized labor, but also of the agricultural interests in fruits and vegetables and they are extremely concerned about being placed in a very difficult situation, because of the great disparity between wages, as well as because of some of the other additional costs that you have alluded to.

You do not see that as a problem, the panel does not see that as a problem?

Mr. BRUTON. I think the tendency is clear, that an investment in inexpensive labor, history shows is a temporary investment, and from 1988 to 1990, we show growth of about 40 percent in total net compensation. Now, that is measured in dollar terms, so that the tendency is in the right direction, in terms of increasing the net compensation of the worker.

Now, as the Ambassador mentioned in his testimony, and I strongly agree with it, if you offer economic opportunity to a Mexican in Mexico, that is going to have a beneficial effect, both in terms of market, as well as in terms of the side bar problem, which is immigration.

Mr. JENKINS. Well, I am not sure that you have fully answered my question. The average manufacturing wage in Mexico is how much today?

Mr. MIDDENDORF. Six bucks a day.

Mr. JENKINS. Pardon me?

Mr. MIDDENDORF. Six bucks a day.
Mr. JENKINS. $6 a day.
Mr. MIDDENDORF. Yes.
Mr. JENKINS. And in the United States?
Mr. MIDDENDORF. I would say many times that.
Mr. JENKINS. I am sure the chamber has the figures.
Mr. BRUTON. There are figures all over the lot. I think you all heard yesterday a figure that was $2.32 per hour from Rudiger Dornbush, and I think the United States, depending on whether it is skilled or unskilled, is without doubt higher.
My point, and I am sorry we did not answer the question fully, I was trying to—the tendency is in the right direction. You have got——
Mr. JENKINS. I understand the tendency is in the right direction, but I want to know what the figures are. Now, you have given me $6 in Mexico, and surely the United States Chamber of Commerce knows what they are in the United States.
Mr. BRUTON. I do not represent the U.S. Chamber of Commerce.
Mr. JENKINS. Well, do you have any idea? Is it $60 a day or what?
Mr. BRUTON. I do not, sir.
Mr. JENKINS. You do not know?
Mr. BRUTON. It ranges, sir, from skilled to nonskilled to regional and everything else. I can tell you about Mexico, but I am not an expert on the United States.
Mr. MIDDENDORF. I would take a wild guess, that it is $30 a day and what have you, four or five times that.
Mr. JENKINS. $30 a day in the United States?
Mr. MIDDENDORF. Yes.
Mr. JENKINS. I believe you are guessing, because that is 8 hours, it would be $3 an hour—that is not even minimum wage, is it?
Mr. MIDDENDORF. We are talking about the wages that would be competing. I thought you were talking about the kind of industries that would be competing with the——
Mr. JENKINS. That would be fine, $6 a day versus $30 a day. I do not accept those figures, because I do not think they are accurate.
Let me ask you this: The wage disparity, assuming that it is $30 versus $6 does not really concern you. We will have a lot of losers, I assume, will we not, from the standpoint of manufacturing and agricultural jobs? We will have people going out of business, will we not?
Mr. JAMES. May I address that question, Congressman?
Mr. JENKINS. Yes.
Mr. JAMES. I believe there will be some losers and I do not think we should pull the wool over our own eyes and say that there are not going to be. There will be losers. There will be losers on the industrial side, as well as on the labor side, and I think that is the experience of free trade agreements. But I think we have to look beyond our noses and to the future, and in the future, as the International Trade Commission of the U.S. Government has pointed out, although there will be losers in the immediate term, in the longer term there will be gainers all around.
In other words, the entire American people and hopefully the Mexican people will be the gainers, and we can see evidence of that

even now. Ambassador Middendorf cited the fact that, for every job that is created in the maquiladoras along the border, another job is created here in the United States.

Now, it may not be the same job that somebody else lost, but the job has been created, and I think this process of job creation is going to increase, with time and with the development of the free trade agreement. This is bound to happen, as there will be an increase in the economic growth of both countries. With the increase in economic growth, you are going to have more jobs all around, and this is going to relieve, to some extent, at least, the unemployment in both countries.

I think also we must consider that having an additional market of an estimated nearly 90 million people in Mexico is going to help us in times of recession. If that market had been available to us now, I do not think we would have seen industry in this country with such high inventories that it has got now, because it would have been able to sell lots of its goods and services to the Mexicans. This has not been the case, and so we are suffering in terms of a recession and people are being laid off, even without a free trade agreement. They are being laid off daily. As you read in the newspapers, there are thousands here and thousands there, so people do lose jobs in a time of recession.

Mr. JENKINS. Well, I——

Mr. JAMES. I just want to complete my remarks by saying that these studies have been made, especially by people along the border, and I think later on you will hear from the Board of Trade Alliance people, who are coming here to testify, that in the long run, and to some extent in certain areas even in the short run, jobs are created, the greater the economic growth as a result of a free trade agreement.

Mr. BRUTON. Mr. Jenkins, if I can interject some figures——

Mr. JENKINS. Certainly.

Mr. BRUTON [continuing.] Once again, United States exports to Mexico have grown from a $12 billion level in 1986 to a current $28 billion, and it is estimated conservatively that it will be $38 billion in 1994. Now, those export dollars mean jobs.

I think the other thing, with regard to the maquiladoras along the border, it is well known that about 60 percent of the income that the people working in the Mexican plants earn is spent on the other side of the border.

Now, if you were to take those jobs and that industry and move it to Southeast Asia, those figures would not be the same.

Mr. JENKINS. I think you make a good point there, but, unfortunately, we have not had the support in trying to shift some of the trade to Mexico and to the CBI countries and away from the Far East in the past, because I think we have a greater obligation, very honestly, to the CBI countries and to Mexico than we do to some of the other areas of the world. We do have an obligation. We have a common border, and we ought to take a close look at that.

But I do not think we ought to go into this and misrepresent, not purposely, what is going to happen; that we are going go create so many more jobs, that there are not going to be any losses. It looks to me as though, with that great a disparity between the wage rates, that the U.S. agricultural sector, certain parts of it, as well

as the manufacturing sector are going to experience a great deal of job loss. At least for the first few years, I do not see how you can avoid that.

Mr. BRUTON. I would rather use the word displacement, which I think is probably more accurate, because you would end up shifting from one sector to another, but I think it is an area of concern, I agree.

Mr. JENKINS. Thank you for your testimony very much. My time is up.

Chairman GIBBONS. Mr. McGrath.

Mr. MCGRATH. Thank you, Mr. Chairman.

Welcome, gentlemen. Yesterday, we heard from various witnesses pro and con. If I could sum up perhaps some of the concerns of those who were against the free trade agreement, they would be, one, not necessarily in this order, but the environment, the exploitation of workers and workers' rights, and the loss of manufacturing jobs from perhaps the Northeast, the Midwest, and the agricultural sector to Mexico.

In my view, because we already have some American firms down there with very low duties, we already have some of that manufacturing capability in Mexico. My view also is that with the advent of this free trade agreement, perhaps the environmental concerns that we have would be made better, because they exist now, and, frankly, in my view they could only be made better by this agreement.

Perhaps the exploitation of workers, in terms of Mr. Jenkins' concerns, and workers' rights, that situation could be made better by this particular treaty.

What perhaps is not answered, and on page 5 of your testimony, Ambassador, you seem to refute the fact that there will be a loss of manufacturing jobs. You named General Motors, Ford, Chrysler, and GE as examples of those companies who have already fled to Mexico, to escape higher wages and costly benefits for workers, and then your next sentence is that is absolutely untrue. Could you explain that to us?

Mr. MIDDENDORF. Yes. Let me just answer Congressman Jenkins' point. I am referring to a study made by Heritage Foundation. Wesley Smith has just completed a study that says the average hourly rate of manufacturing jobs in Mexico is $1.90 an hour, and I would like to correct my earlier statement, compared to $14.50 an hour in the United States.

He also points out that, of the 20 million new jobs created in the United States over the last decade or so, most of them are in service-related industries, and this answers Congressman McGrath's question, I think, telecommunications, banking, insurance, computer technology, transportation, and food services, so service-related jobs are now 76 percent of the U.S. labor force.

Mr. MCGRATH. And your contention is that trend will continue with the transfer of manufacturing jobs to other places, not only Mexico, where there are lower wages?

Mr. MIDDENDORF. Right, but Dan James was physically there in Mexico at the time when General Motors and General Electric and Rockwell and others came in, and I think he could comment on what direction——

Mr. MCGRATH. Be my guest.

Mr. JAMES. May I first of all, sir, make a correction on page 5 of the testimony of Ambassador Middendorf, of the Mexican-American Free Trade Association. What it says is that the critics of FTA make the doubtful charge that some of our biggest companies, mentioning General Motors, Ford, Chrysler, and GE, have fled to Mexico.

Mr. MCGRATH. Yes, that was my intention and I wanted you to explain to us the next sentence, that that charge is untrue.

Mr. JAMES. Well, I lived in Mexico for nearly a quarter of a century during the time that these companies did come down there. As a matter of fact, I arrived in Mexico to do a study of essentially United States investment there, and we found in the course of that study that American companies which went down there contributed greatly to the Mexican economy and to employment in Mexico at that time and helped to increase the wages of workers in manufacturing industries. They did not take jobs away from Americans. Those jobs simply did not exist.

Now, there was no hue and cry at that time on the part of anybody in this country when GM set up shop and Ford set up shop and Chrysler and all the rest down in Mexico. And I do not know of any hue and cry, nothing in the Congress and nothing outside the Congress, in protest against what these companies did.

I submit that the argument and that the debate now is being somewhat skewed. We are not talking just about the maquiladoras along the frontier. They are just part of the large Mexican population and the large Mexican economy.

Basically, what we should be talking about with regard to free trade is the investment of American and other foreign investors in the Mexican economy within the interior. You have the complex of Mexico City, Guadelajara, and Monterrey that are fairly well below the border, and where investors from here and from other countries can go down and set up manufacturing concerns, set up service concerns, whatever they can get, and increase employment in Mexico, and if it is involving American investment, they could increase employment here in the United States, simply because it would be more exports and imports. As we have said before in our statement, it would be an exponential change in the flow of goods and services back and forth across the border.

I think we should get off the maquiladora thing in terms of what is at issue with the free trade agreement discussion. We are talking about helping to build a Mexican economy and United States exports.

Mr. MCGRATH. Mr. Bruton, you made reference that an ancillary benefit to this agreement that should succeed, would be a mitigation of our immigration problems with Mexico.

Mr. BRUTON. Right.

Mr. MCGRATH. Do you believe, as some on the committee seem to, that immigration should be part and parcel, either of the agreement or a substantial parallel agreement with this agreement, and included in that, if I might, would be another concern of ours with Mexico, and that would be the importation by this country of the drugs through Mexico.

Mr. BRUTON. In answer to your first question, I do not believe that immigration should be part of this negotiation, because we are talking about a free trade agreement, we are not talking about a common market, and I think the immigration aspect of it that I mentioned was an ancillary benefit, but I do not believe it should be negotiated as part.

With regard to drugs, it is again a question of tendencies. I think you are seeing a level of cooperation on the part of the Mexican Government that has enhanced itself and has improved. There is a tremendous effort, a tremendous priority ongoing to spot this traffic and to stop it, and I think that the statistics—I am not familiar with it, but I know that the attention going towards it is enormous. Once again, there is no questioning the desire and the commitment of the Mexican Government with regard to drug control, we do not believe. We are impressed with that.

Mr. MCGRATH. Thank you.

Chairman GIBBONS. Mr. Pease.

Mr. PEASE. Thank you, Mr. Chairman.

I would like to ask questions of at least a couple of the witnesses. I would like to start with Dr. James and ask him if he would do me a favor. He made reference earlier to a letter sent by 37 Members of Congress to President Bush, in which he said for the record in this hearing that that letter demanded that Mexico make certain changes in its political system and other aspects of its society before entering into an FTA.

I would like Dr. James to quote for me the portions of that letter, since I am the one who drafted it. It was signed by 12 members of this committee. I would like for him to quote to me the portions which used the word "demand." Do you have a copy of that letter with you?

Mr. JAMES. I do not have a copy before me, I am sorry.

Mr. PEASE. Dr. James, we will provide you with copy of that letter.

You look it over and be prepared to tell me where those demands are, while I talk with Mr. Bruton.

Mr. Bruton, you say that United States inputs are on the increase in Mexico, is that right?

Mr. BRUTON. Yes, sir.

Mr. PEASE. You quoted some figures, up to $28 million, was that——

Mr. BRUTON. $28 billion.

Mr. PEASE. OK. And you said that creates jobs in the United States.

Mr. BRUTON. Yes.

Mr. PEASE. What if those inputs were previously manufactured in the United States, now we are sending them down to Mexico, right? The inputs that we are sending there are still manufactured in the United States, right? Previously, they were manufactured in the United States. What about if those inputs previously went into the manufacturing process in the United States, whereas, now they are going into the manufacturing process in Mexico, does that create jobs in the United States?

Mr. BRUTON. I believe so, sir, because I also, a little further in my comments, talked about some of the American companies, the

percentage of the inputs that are U.S. based. I think there is an element that was alluded to, but I did not mention as explicitly probably as I should have. The Mexican market has been opened up tremendously by the unilateral reduction of import permits, so you are talking about a new market.

Mr. PEASE. I understand that, but that is a broader question. But let us say a company is manufacturing in Ohio, manufacturing the whole product in Ohio, and then it sets up a maquila plant in Mexico and now it manufactures just part of the product in Ohio and ships the rest of production down to Mexico. All right?

Mr. BRUTON. All right.

Mr. PEASE. So, the inputs into Mexico count as an increase, because there were no inputs before and now there are, but at the same time part of the work is no longer being done in Ohio. Does that create jobs in Ohio?

Mr. BRUTON. Perhaps if you look at it from this point of view, one of the reasons that the maquila business has grown is to be able to offer an essentially American product on a competitive basis next to a wholly imported product, and so you could argue that by utilizing the concept of shared production, which is what the maquila[illegible] are able to sell essentially an American product on [illegible] United States at a competitive rate, whereas [illegible] not be able to sell that product competitively [illegible] the low-cost labor input, as well as the tra[illegible]llows American industry to put a compet[illegible]ext to a totally imported product, and it [illegible]t cetera, et cetera, you understand.

Mr. [illegible] with that argument and it does have [illegible]uations, I will grant that. What about [illegible] that is not being pressed by foreign competit[illegible] an opportunity to lower its manufacturing costs by shipping the work down to Mexico, rather than doing it in Ohio?

Mr. BRUTON. I would find that a hypothetical case. I do not know of a company—I am not saying that it does not exist, but I do not know of a company that has that particular situation.

Mr. PEASE. Mr. Bruton, that happened time and again in Ohio during the 1960's and 1970's, when plants from Ohio moved down to North Carolina or Tennessee or South Carolina, in order to take advantage of lower wages.

My concern is that the same thing will happen in Mexico, if we open up the border to make it easier to get things back and forth, make investment more safe, which you acknowledge is a benefit of this FTA. My concern is for my own people, the people who work 8 hours a day, provide for their families, are able to buy a house perhaps after saving, what are they going to do when those factories move out?

Mr. BRUTON. I think what they are going to be able to do is—well, you have got to look at the phenomenon of job displacement, not necessarily job loss. I think that has been the experience in the past, and the idea of the United States being able, in macro terms, obviously, being able to put products at a more competitive rate on

the shelves is generally favorable, given the situation that we are facing economically in this country.

Mr. PEASE. Thank you.

Dr. James, are you ready for me now?

Mr. JAMES. I am ready.

Mr. PEASE. Which paragraph uses the word "demand"?

Mr. JAMES. At the bottom of the first page of your letter, Mr. Pease, the second paragraph from the bottom, the letter states, and I quote directly:

> First, neither the U.S. Government nor the Mexican government has recognized publicly the need to incorporate a social charter in the U.S.-Mexico FTA to address fundamental labor, health, environmental and political policy differences that exist between the two countries.

Then in the third paragraph from the top of page 2, the letter states further:

> Since the 1920s, Mexico has been governed by an authoritarian, undemocratic one-party system, under the control of the Institutional Revolutionary Party, or PRI. We are encouraged by the limited electoral reforms and progress, but sweeping changes in the Mexican [illegible] still to come to facilitate elections that are more fair and democratic, thereby encouraging pluralism in that society as a whole.

Now, I submit, Mr. Pease, that if the word "demand" is a little strong, and I am ready to modify that to say "request" or "insist" or whatever other word you wish to put in there, nevertheless the thrust of this letter is, in effect, telling the Mexican Government, "Hey, you've got to do this, you've got to institute these fundamental changes," as [illegible] them there. And it is just—mind you, I agree with you—[illegible] is no difference substantively in what you are saying and what I believe, and I am on record to that effect.

All I am saying, Mr. Pease, is that this should be discussed separately from the Free Trade Agreement. Let us exhibit our concern for these issues in separate talks. Let us go on with the purely trade aspects of the FTA.

Mr. PEASE. You tell me you are willing to modify your previous use of the word "demand." You do not find that there is a demand here.

Mr. JAMES. Well, the thrust of the letter, I think, is demand.

Mr. PEASE. Now we are talking about thrust and not the letter itself.

Moving on, Dr. James, to your basic point that we ought to consider the desire for improved democracy, labor rights, environmental standards in Mexico, with which you say you agree, we ought to consider those separately from a trade agreement. Would you take that same position regarding trade between the United States and China, say, after Tiananmen Square? Do you think we ought to ignore what happened in Tiananmen Square and just say, well, that is their political system, that is not trade, we ought to just consider each one in separate baskets?

Mr. JAMES. I think we are talking about two different situations, sir. There has been no Tiananmen Square in Mexico City, so automatically there is a difference. China is a totalitarian Communist state, and Mexico is not. China is a dictatorship, a naked, bloody, brutal dictatorship, and Mexico is not. So, there are vast differences between the [illegible] countries.

Furthermore, China is some thousands of miles away from us, and Mexico is right here occupying the same border as we do, and with whom we live a kind of an integrated cultural and political relationship, as well as an economic one. So, I think you have major differences there, and the answer is I would not even think in terms of a free trade agreement with China at this stage of its development.

Mr. PEASE. Would you make that same distinction as far as Iran is concerned? Iran has got oil we could buy. Would you not want to enter into a trade agreement with Iran?

Mr. JAMES. It does not seem that the Iranians would favor a trade agreement at the moment.

Mr. PEASE. How about South Africa?

Mr. JAMES. Again, I think there are vast differences of a similar nature.

Mr. PEASE. So, your position is not one of principle, it is just one of practicality, that there are conditions under which you would not want to enter into a trade agreement with another country, but Mexico is not one of those situations, is that right?

Mr. JAMES. I think that pragmatism should rule in this case, yes.

Mr. PEASE. Dr. James, yesterday I used the analogy of a parent. Are you a parent?

Mr. JAMES. Yes, I am.

Mr. PEASE. Considering the request or the indication of a daughter that is going to get married to somebody, a parent is naturally interested in the prospective in-law, education, personality, the ability to earn a living and all of that sort of thing.

It seems to me that in a free trade agreement, we are being asked to go into something close to an economic marriage with Mexico, and that it is not out of line for us to ask about the suitability of that partner, and here we have a partner which, by your admission, is not nearly as democratic as we would like it to be. One party has been in control for the last 70 years, there are lots of rumors that the last election was tarnished by fraud. We have widespread corruption, we have a labor movement that is hardly worth the name. We have environmental laws that are not being enforced.

You do not think it is useful for us to consider those, as well, in terms of a free trade agreement?

Mr. JAMES. Well, I think you have almost answered yourself there. I do consider those things useful. The concerns are there, I share them, our association shares them. But I do not think they should be part of the free trade agreement.

Now, you put yourself in the position of a parent looking at this, there is an economic marriage about to be consummated. I say the marriage is already in existence. The fact is that we have had increasingly close economic relations with Mexico going back to the year one. As we mentioned in our statement, General Motors and other large American concerns have been located down there for many, many years and no one has ever objected to that. Therefore, why should we object to the marriage bearing more children? Let more companies go down there. Let them encourage the growth of the country, the growth of our exports and, therefore, of our employment.

Mr. PEASE. I think you strain the analogy a little bit there.

You mentioned, I think in response to a question from Mr. Jenkins, that we need to look beyond the current job loss or potential job loss, to the future, where all the American people will be the gainers in the long run, create more jobs all around.

You would admit, though, that if one of Mr. Jenkins' textile factories or garment factories moves down to Mexico, there will be an immediate loss of jobs for those workers, and if an agricultural processing plant in the California valley moves to Mexico, there would be an immediate loss for those workers, as well, is that right?

Mr. JAMES. Probably, sir, but those jobs may be lost in any case, even without an FTA. The fact is that there have been movements of companies elsewhere in the world, American companies.

I think we are in danger of putting ourselves a little bit in the position of King Canute trying to push the ocean back. We cannot do that. We are not going to be able to stop this economic trend, which is not only bilateral but is worldwide, and you are going to see American and other foreign companies moving all over the world. This is the globalization of the world economy, if you will. So, let us not put ourselves in the position of King Canute.

Mr. PEASE. Dr. James, I agree with you that the trend is occurring in the world, we are increasingly seeing a globalization of the economy. Where I make the distinction is that, while we cannot halt that process, and I agree that we cannot halt it, the question in the United States-Mexican FTA is whether we ought to accelerate that process or not.

When I look at the workers who have jobs now and are providing for their families, I am concerned that they are not going to have those jobs and that their children are not going to have access to the same kinds of jobs, maybe service sector jobs, but not manufacturing jobs, and I do not see why we in the Congress should be accelerating that process. Can you tell me a reason?

Mr. JAMES. Well, I think we have produced documentation, and plenty of it exists, that shows that some do lose jobs and my heart goes out to them. I would not want to lose my job and I would not want my friends to lose their jobs, and I certainly would not want the workers out in Ohio to lose their jobs, by any means. At the same time, there is this inevitable process going on and jobs are being created by the maquiladora process, if we are going to talk about that again. There is documentation to that effect. I could read you things that I have got here, you know about them, you have heard testimony from others, and will hear further today, I understand.

I do think, sir, that perhaps we ought to focus on the jobs that can be created for Americans, if there is increased United States investment elsewhere in Mexico, not just the border, but throughout the interior. I mentioned earlier and others have, that you have Guadalajara, you have Monterrey, you have other large cities in Mexico, and as the investment laws are liberalized and hopefully, as Mr. Bruton said, one day they will be institutionalized and made permanent, then I think we will be closer to economic integration and the consequent increase of jobs in this country.

Mr. PEASE. Dr. James, thank you very much.

Mr. JAMES. Thank you.

Mr. PEASE. I do indeed want to focus on the jobs that will be created in this country, if there is an FTA, and specifically to focus on the kinds of jobs that will be created, but I will save that for another witness.

Thank you.

Chairman GIBBONS. Mr. Crane.

Mr. CRANE. Thank you, Mr. Chairman.

I want to thank our witnesses for their testimony and support for the free trade agreement. I do not know the answers to these questions, so I am going to throw them out generically to all of you. Prior to the initiation of the 936 program in Puerto Rico, I have been told their unemployment rate used to average about 30 to 35 percent.

I do not know what the wage rate was, but most recently when I was down there visiting some of those plants, they told me that one of their problems in the 936 program is their wage rate is up to about $9 an hour now, and as a result they are trying to farm out some of the labor-intensive aspects of their work to other Caribbean countries, and the wage rate I think they quoted to me in the Dominican Republic was like $1 an hour or a little over $1 an hour, by contrast.

It seems to me that a lot of the apprehensions about the low wage rates in a country less developed such as Mexico could be transformed with a revitalization or a vitalization or energizing of their economy in a very short period of time, and that this apprehension entertained by many here that you would have a massive flight of American industries down to Mexico is not necessarily valid. Do you have any figures that would tend to corroborate that?

Mr. BRUTON. Not at hand, but I think we could study that, but I would like to comment. I agree with what you are saying. I think there are lots of things that go into the decision to move. I know very little about Puerto Rico, but I do know about other countries in Latin America, and wages is only one, and I think that the combination is what makes the decision. It is usually quite a complex decision.

In terms of actual figures, what I would like to go back to is the concept that if by moving, part of its production the company comes out stronger, as its sales go up, then the shareholders benefit, its workers benefit, and the company itself flourishes, as does the communities in which that company has operations. That is a generic type of an answer, but I think it is true.

Mr. CRANE. I heard some of the testimony yesterday and I know we have got some more today, and one of the ongoing criticisms is the loss of jobs here, because of the flight of business down to Mexico, if we were to negotiate this agreement.

A couple of other comments, though, that were made yesterday, and I think they are going to be repeated today, have to deal with some of our hidden labor costs dictated by regulation, OSHA regulations, for example, and that they have nothing comparable in Mexico or, if they do, they are not enforced.

Another concern expressed dealt with the environment. Mexico does not have the strict environmental laws that we have on the books here, and, as a result, their production costs would be signifi-

cantly below what production costs would be here, even aside from the lower wage rates down there. How do you respond to that, and should that be, in fact, a part of the negotiations of a free trade agreement?

Mr. BRUTON. I did not see this in any of the notes about yesterday, but in 1988 the Mexican Government passed a Federal environmental law that is significant in two ways: I think, No. 1, it is another indication of the intent of the Government to tighten the situation and to make it better and more acceptable.

I think the other aspect of it is that American companies pretty generally are on record and are subject to verification, but they take their standards with them and are proud of the environmental record that they have established. So, if you have got the intent of the Government and you have got a tighter law and compliance is being looked at with great vigor, knowing that this is a consideration in a negotiation that the Mexican Government is very interested in, I think that you are going to see an improvement.

I also feel that American companies have got a good record in Mexico of keeping at least to their American standards which are EPA controlled, and that is subject to your verification.

Mr. CRANE. Bill, do you have anything to add?

Mr. MIDDENDORF. As I mentioned earlier, in the last 8 years, Mexico and the United States have had four major bilateral agreements on environment, and this last law is almost as strict as ours. It is a question of enforcement, but I do not know of any major American company like Rockwell International and others that have gone down there that have not lived up to what would be equivalent to the American environmental standards.

I want to point out, in speaking of Rockwell, a lot of these jobs that were lost, first of all, in maquiladora, the studies that we have done at Heritage Foundation show that the maquiladora program has created 100,000 American jobs and several hundred thousand more jobs in support industries like food services, warehousing and real estate have been created in the border regions, where the program rejuvenated economically depressed border towns in Texas, Arizona, New Mexico, and California.

You know how competitive it is today in manufacturing, even in the high technology areas with Japan and other areas. A lot of the factories that have closed down here would have had to either close down or move to third-world countries, anyway. You mentioned Puerto Rico, but they would have moved to Third World countries, if it had not been for Mexico, while maintaining control and the supervision functions here in the United States. If they move to one of the Asian tigers, for example, a lot of the proximity jobs are lost to the United States.

Rockwell has combined in Mexico, with skilled Mexican labor and with their own advanced technology, a high quality low-cost product; they now provide 60 percent of the modems for fax machines sold in Japan, and it is a remarkable accomplishment to be able to compete with Japan on that. If they had been making those here, they would not have been able to compete in the same way. I mean there are a number of cases, Packard Electric and General Motors moved their labor-intensive portion to Mexico in order to stay alive and compete, keeping their administration and sales and

research and development and other technologically advanced portions of production in the United States.

The other side of the coin is that well-paid Mexicans are going to stay in Mexico. One of the statements that came out in Mexico that I heard on the radio is that they are either going to get jobs down there or they are going to get jobs here. Fewer illegals in the U.S. work force will increase the demand for U.S. labor in food services, in semiskilled manufacturing, construction and other areas, where the illegals now have traditionally been working. If you go into a restaurant in town here and ask for green cards, there might be six waiters jumping out of windows, to disappear.

There are supposed to be 100,000 El Salvadorans, for example, in the Washington area alone. I think it is very much in the United States' interest to have them do well in their own countries and to stay there. They are often displacing American jobs, and I should think Labor would be looking at that aspect of the thing.

Mr. CRANE. I could not agree with you more. Abbott Laboratories and Baxter in my district, they have plants down in Puerto Rico, and one could argue that is lost jobs, but the fact is that Baxter and Abbott have increased their employment back home. Their entire operation has grown enormously and they did tell me that if there were alterations of the 936 program that were disadvantageous, coupled with the escalating wage rates down in Puerto Rico, they would have no option but to go to other countries, anyway.

So, I think the points of all three of you are well taken and I commend you for your testimony and thank you.

Mr. BRUTON. Mr. Crane, I would like to clarify the last question you asked me with regards to the environment and the FTA negotiations.

I think that it is clear that the environment is a subject to be dealt with and there are other groups that are working on it, but I do not think that it should be part of the FTA negotiations per se.

Mr. CRANE. Thank you.

Chairman GIBBONS. Mr. Downey.

Mr. DOWNEY. I do not have very many questions.

Bill, it is good to see you, and gentlemen. Bill, I have one question. Do you think that if we have a free-trade agreement with Mexico, we will be able to get a good beefsteak tomato in the United States in the winter? Do you think there is a possibility of seeing anything like that?

Mr. MIDDENDORF. I will guarantee to get you a good beefsteak tomato in this country, if you do me a favor and keep that F-14 assembly line alive.

Mr. CRANE. Fair enough. I have no further questions. [Laughter.]

Chairman GIBBONS. For those of you who had written statements, without objection, we will accept them in the record.

I want to thank each of you for coming and adding to the sum total of our knowledge. Thank you very much.

We next have Mr. Thomas Donahue, of the American Federation of Labor-Congress of Industrial Organizations.

Mr. Donahue, you may proceed as you wish. We welcome you here.

STATEMENT OF THOMAS R. DONAHUE, SECRETARY-TREASURER, AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS [AFL-CIO], ACCOMPANIED BY WILLIAM CUNNINGHAM, LEGISLATIVE DEPARTMENT; AND MARK ANDERSON, ASSISTANT DIRECTOR, ECONOMIC AFFAIRS DEPARTMENT

Mr. DONAHUE. Thank you, Mr. Chairman.

I am Tom Donahue, and I am secretary-treasurer of the AFL-CIO. I am accompanied this morning, seated on my right, with Mr. Bill Cunningham, of our legislative department, and on my left, Mark Anderson, the assistant director of our economic affairs department.

Mr. Chairman and members of the committee, we in the AFL-CIO welcome the chance to present our views on the proposed negotiations for a North American common market. They will be somewhat in contrast with those you have heard up to now.

This is an unusual occasion. It is not every day that a sovereign nation seeks to negotiate an agreement that is certain to destroy the jobs of tens of thousands of its citizens, but that is precisely what the administration is proposing.

The only uncertainty is how many tens of thousands or hundreds of thousands of jobs will be lost. Yet, the administration urges the Congress to approve such an agreement quickly, step to one side and watch the changes from the bleachers.

The AFL-CIO has two broad concerns about the negotiations. First, we believe that the substance of the administration proposal is harmful and ill-conceived, and we believe that American workers will pay for it with their jobs.

Secondly, we are alarmed by the effort to limit discussion and debate, the effort to circumscribe the role of the Congress in what will be a wholesale restructuring of the economy of North America, with all of the Caribbean, Central America and Latin America perhaps hurt initially. Undoubtedly they will be later integrated into a common market, under the same logic that drives the current efforts to form the North American common market.

We already have the preview of that kind of restructuring in the maquiladoras. Those United States-owned plants that operate in Mexico, exploit Mexican workers, produce goods that are exported back here. There are now, as you well know, 1,800 such maquiladoras in operation, employing some half million workers.

The most immediate effect of a so-called free trade agreement or the most immediate effect of a North American common market is that it will spread the growth of even more maquiladoras. It would open their backdoors, however, for sales to Mexican consumers, eliminating whatever current United States sales flow in that direction. It will eliminate their intake and their use of United States components, and I suppose it would force them to be more competitive in competing with the Japanese and the Korean plants which are locating and which will continue to locate in Mexico.

Take a look at what is the effect of the maquiladoras so far: Tens of thousands of employees of Electrolux, Trico, Zenith, Westinghouse, GE, AT&T, General Motors, Ford, Chrysler, and the list goes on with many, many more, have seen their jobs exported to

Mexico. Those numbers will increase substantially with the advent of a common market, which will make it possible for those plants to discontinue the use of American parts, United States made parts, and allow the entire manufacture and assembly of those products to be carried out in Mexico.

United States workers will lose their jobs in other ways, as well. One of those is increased labor mobility, in other words, the temporary or long-term use of Mexican workers by contractors on this side of the border.

This issue will come up in the negotiations under trade and services, as it has come up in the GATT negotiations, despite administration assurances to the contrary.

I note that in her testimony, Ms. Hills has ruled out for now only "large-scale labor mobility." That is not a very encouraging beginning. Labor mobility, the subject which haunts us all, is barely mentioned in last week's ITC report, with its highly tentative conclusions.

Even that report, however, says that unskilled workers—and that is the term the ITC uses—unskilled workers are "likely to suffer a slight decline in real income, but United States skilled workers and owners of capital services would benefit more from lower prices, and thus enjoy increased real income."

I would invite you to take a look at the fine print, Mr. Chairman. The ITC does not say officially what they mean by "unskilled workers," but we have been told that they define unskilled workers as those with 4 years of high school or less. That definition encompasses 57.1 percent of the working population. That means that the ITC is telling us that the people on the top rungs of the economic ladder, that minority of 43 percent, are going to benefit from the free-trade agreement, while those on the bottom rungs, 57 percent of the people, would be hurt.

The ITC thinks that they will suffer only a slight decline. I would suggest that is a very rosy scenario.

Take a look for a moment at the Mexican workers. They can expect very little from such an agreement. The real reason that United States-owned plants are set up in Mexico is this paycheck. This, Mr. Chairman, is the pay stub of a worker at a Zenith plant in the Mexican city of Reynosa. For a 48-hour week, the gross wages were equivalent to 61 cents an hour. That is a typical paycheck in the maquiladora. The average wage in the maquiladora is between 60 and 80 cents an hour. Those wages barely provide subsistence in northern Mexico.

The estimate is that in Juarez, between 400,000 and 500,000 people have no running water, sewers or electricity. The workers in many of those maquiladoras live in shacks made out of packing crates, the drinking water is contained in 50-gallon drums that used to contain toxic materials.

A Wall Street Journal report on the maquiladoras said, "Their very success is helping turn much of the border region into a sink hole of abysmal living conditions and environmental degradation." If that is the ladder to prosperity, all of the bottom rungs must be missing, but it is what even more Mexicans can expect under a North American common market.

Defenders of the agreement say it would stem the flow of illegal immigration from Mexico. That is nonsense. An agreement that creates more 80-cent an hour jobs south of the border is not going to keep Mexicans home. The poverty stricken Mexicans making 80 cents an hour, the incentive would still be strong to find a way to the United States, where they could earn at least for now several times that amount.

Some people suggest the North American common market would be a natural extension of our free-trade agreement with Canada. We hear the administration speak of a market stretching from the Yucatan to the Yukon. The poetry is impressive, but the practicality is depressing. The gap between our economy and Mexico's is 10 times greater than that of the United States and Canada. In 1989, the GNP per capita in Canada was 90 percent of the United States. The GNP of Mexico was 9 percent of that of the United States.

We also hear the conversation that says that, after all, we are just following the lead of the European Community's single market to be set in place next year. It is a comparison of apples and oranges. The Europeans, first of all, are working to establish a social charter to protect workers in that single market. The charter would include rights to collective bargaining, vocational training, health and safety protection, minimum wages, child care regulations, and so forth.

This administration and the Mexican Government resist any such protections in United States-Mexico arrangements, and it is reported that the Mexicans have taken the environmental issue off the table. That is a position that apparently our Government agrees with, since Ms. Hills has said, well, we are negotiating that separately.

There is another big difference between the European and the United States-Mexican-Canadian projects. The European Community has a huge assistance program, the Regional Development Fund, which is going to spend $68 billion over the next 4 years to narrow the gap between the richest regions, West Germany, and the poorest regions, most of Portugal and Greece. There are no such plans in the United States and none likely.

It is interesting that, while the Europeans understand the need to narrow that gap between their richest and the poorest areas, they actually start out with a gap which is much, much smaller than ours. Someone ought to look at the EC and ask why they did not include Turkey. It is an interesting question for examination.

They did not include Turkey, because it is the poorest nation, too poor to be included in the Common Market. But in the nations of the market as it is to be composed, Portugal and Greece are the poorest members. Their GNP is 20 percent of the average in the market. They account for 20 million people in a market of 350 million.

In a North American common market, Mexico will account for 89 million of the 360 million people, that is 25 percent of the market, but the Mexican GNP is less than 10 percent of ours. The problem is enormously more complicated, so we are concerned that a North American common market would be unfair, would destroy United States jobs, exploit Mexican workers, and is vastly impractical.

Our second concern, Mr. Chairman, is over the administration's alarming strategy for obtaining approval of the agreement. The operating principle seems to be the less debate the better, no debate is best of all. It is interesting to contrast that with the evolution of the single market in Europe. The official process there began 33 years ago, with the 1958 Treaty of Rome, and there has been plenty of parliamentary debate and give and take in each of the member nations at each step of the way.

When the single market begins in 1992, it is going to be far better, because of the democratic process. If the EC process is valuable to us, it is valuable as a model of consultation, of the creation of committees looking to the economic integration of nations, and we ought to follow it.

The process that is proposed here is backwards. If we are going to emulate the EC, we ought to start as they did, with the creation of a North American parliament to discuss the issues of merging three such economies, to avoid the conflict in our laws and regulations. Such a parliament could plan for a common currency, integrated tax structures, and eventually for a common passport.

I would suggest that such parliament could be created on an offshore island, Catalina, perhaps, or maybe Staten Island, which seems occasionally to want to leave New York. That could be the site for a parliament and the elections could be scheduled in another year or so. We ought to allow some time for the Nation to think about this and for rules to be written. We ought to examine the questions of eligibility of candidates for such a parliament, distribution of representations, whether it should be proportionate by population or according to some other formula.

I suppose we should examine the question of eligibility for office, as to whether or not sitting members of national parliaments would be eligible for election in this super-national parliament. But all of those questions, I submit, ought to be decided first and not last.

Here the administration's strategy is completely different. From the start, the administration has tried to foreclose most of the discussion on a United States-Canadian-Mexican agreement, and to maneuver Congress out of the picture. They propose to negotiate a North American common market in 6 months and ram it through this Congress on a simple yes or no vote.

An economic upheaval of that sort, the sort envisioned in Ms. Hills' testimony, deserves more consideration and examinations before the committees of Congress, more extensive debate here and in the Nation, than a yes or no vote would allow.

The incredible request before this body is to give this administration a blank check to negotiate a North American common market, which Ms. Hills describes as a concept unprecedented in our history, creating the world's largest free trade area, with 360 million consumers and a $6 trillion economy. All of that she is going to do in 6 months, presumably on month 7 she will rest.

Mr. Chairman, we urge that you not give the administration that blank check. We are confident that under your leadership, implementing legislation for rational negotiations can be developed under normal legislative procedures, so that the Congress and the Nation has as chance to discuss this subject, to discuss the ideas

put forward, to evaluate the pieces of the trade agreement and a common market, and modify it, as necessary.

We also hope, Mr. Chairman, that the Nation would set out to do what it ought to do to improve our relationships with Mexico and to raise Mexican living standards. That means developing a plan for significant debt relief, more humanitarian assistance, greater cooperation on environmental issues, programs to help stem capital flight from Mexico, and it means expanded foreign aid and development assistance provided by this Nation to Mexico.

Those are programs that all Americans would support through their tax dollars.

The scheme put forward by this administration is to provide that same developmental assistance to Mexico by exporting United States jobs, which will leave United States workers unemployed and Mexican workers exploited. It is a scheme that asks only American workers to pay for Mexican development. There is no equality of sacrifice in that idea, no sharing of the burdens of assisting our neighbor nation.

Mr. Chairman, the American worker cannot afford to bear that burden. Thank you, Mr. Chairman.

[The prepared statement follows:]

STATEMENT OF THOMAS R. DONAHUE, SECRETARY-TREASURER
AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS
BEFORE THE SUBCOMMITTEE ON TRADE, COMMITTEE ON WAYS AND MEANS
UNITED STATES HOUSE OF REPRESENTATIVES
ON THE
PROPOSED U.S.-MEXICO FREE TRADE NEGOTIATIONS

FEBRUARY 21, 1991

Mr. Chairman, members of the Committee, the AFL-CIO welcomes this opportunity to present its views on the proposed U.S.-Mexico free trade negotiations. There are few public policy issues confronting this nation that have as much significance for American workers as does this Presidential initiative. We strongly believe that the substance of the Administration's proposal is ill-conceived and ill-advised, and we are alarmed at how the Administration wishes to carry out these negotiations.

With virtually no public discussion or debate, Presidents Bush and Salinas announced on June 10, 1990, their intention to enter into negotiations leading to the enactment of a comprehensive free trade agreement (FTA) between the two countries. President Bush is seeking to conduct these negotiations under special congressional authority known as "fast track," which allows the President to submit implementing legislation resulting from a trade agreement for congressional consideration under a closed rule. The use of "fast track" seriously limits both public and congressional involvement in discussions with Mexico, and dilutes the law-making authority of the Congress.

The AFL-CIO believes that the relationship between the U.S. and Mexico is too important to be addressed in this fashion. A free trade agreement would have serious and far reaching consequences for the two countries, and in particular, for workers in both countries. Such an initiative requires a full and open debate to identify its effect on economic growth, wages, income distribution, the environment, and quality of life in both countries. The Administration, in seeking "fast track" authority, wishes to stifle that debate.

The enactment of a free trade agreement with Mexico, as proposed by President Bush, would be an economic and social disaster for U.S. workers, and their communities. Under current trade arrangements, tens of thousands of American workers have lost their jobs and tens of thousands more have seen employment opportunities vanish, as U.S. companies transferred production to Mexico to take advantage of the poverty of Mexican workers, and the absence of any effective regulations on corporate behavior.

A free trade agreement will only encourage greater capital outflows from the U.S., bring about an increase in imports from Mexico, reduce domestic employment, as the U.S. moves deeper into a recession, and accelerate the process of deindustrialization that has confronted this country during the 1980's.

What is at stake is not more or less trade with Mexico, but the nature and quality of that trade. The United States will stand to lose in the competition for world markets if the economic relationship emerging with Mexico contributes to the further deindustrialization of the American economy and to the erosion of the skill base of this country. Such a scenario is likely when innovation and technical change in the domestic manufacturing sector is blunted by the availability of cheap labor in Mexico, leading to meager productivity increases. By the same token, a free trade accord ignores the social dimension of economic integration and may increase tensions and frictions between the two countries, thus sharpening differences, and blocking the development of a more harmonious relationship.

This second point is vital for both the interests of the United States and Mexico. Unregulated trade for the United States, will result in less job creation, less productivity increases, and regression in environmental and other social standards. For Mexico, it could well reduce that country's comparative advantage to simply cheap labor, turning Mexico's economy into one large export platform, sacrificing balanced and equitable economic development. This view was emphasized last November by six Mexican leaders, including former Finance Minister Jesus Silva Herzog and author Carlos Fuentes, who wrote: "Low Mexican wages cannot be a permanent feature of North American economic relationships. That comparative advantage is too costly for everybody involved; too humiliating and unproductive for Mexican dignity and economic development; too costly in jobs and welfare for American and Canadian workers; too destructive for our common environment and civilization."

To Extend the U.S. - Canada FTA

It has been argued that a free trade agreement with Mexico would merely be an extension of the pact entered into with Canada in 1989, thereby creating a North American free trade area. The AFL-CIO opposed the U.S.-Canada FTA because we were, and still are concerned, that the agreement would inhibit U.S. governmental efforts to address economic and social problems in the U.S. while at the same time, approving a significant disparity in the way the two governments involve themselves in economic development. That being said, Canada, at least, has wage levels, living standards, and regulatory structures similar, if not superior, to the U.S. A free trade agreement with Mexico, a country where wages and social protections are almost nonexistent when compared to our own, simply invites disaster for U.S. workers.

To Compete with Europe

Proponents of a U.S.-Mexico FTA have also suggested that it is a necessary step to balance actions being taken in Europe to form a single market. This comparison is also misleading, and ignores a variety of factors that separate the European experience from the proposal now under consideration. In Europe, a crucial aspect of ongoing talks is the development of a social dimension to the internal market. There, the freeing up of capital movements, and the liberalization of trade in goods is taking place side by side with efforts to set minimum work place standards and benefits, as well as to establish common regulatory regimes. As currently described, U.S. negotiations with Mexico will deal exclusively with trade and capital liberalization and ignore the social dimension of trade and production.

U.S.-Mexico Trade

Trade between the U.S. and Mexico has grown rapidly during the last decade. Imports from Mexico have increased 40 percent since 1985 reaching 26.6 billion dollars in 1989. A major stimulus to this increase has been the massive devaluation of the Mexican peso and the coincident growth of the in-bond or maquiladora program. This program effectively suspends Mexican import duties on U.S. production related machinery, as well as components that are incorporated into exports, and U.S. duties on the U.S. content of products imported from these plants. Located largely in the border area, its size has mushroomed from 120 plants, employing about 19,000 workers in Mexico 20 years ago, to some 1800 plants, employing about 500,000 workers today. The significance of this activity is reflected in the growth of imports under harmonized tariff system item 9802, which eliminates U.S. tariffs on the U.S. content of the imported products. The value of this trade has doubled since 1985, and now represents 45 percent of all U.S. imports from Mexico.

The free trade agreement, as proposed by President Bush is designed to expand this type of economic activity, by encouraging U.S. investment in Mexico for production for export. The AFL-CIO believes that this type of program will do little to help solve America's trade problems. Indeed, it only makes that problem larger. At the same time, it does little, if anything, to improve the lives of the vast majority of Mexican citizens.

This is not to say that no one benefits from this program. Certainly, the profits of U.S. companies are increased, and I imagine a narrow group of managerial and political elites in Mexico are advantaged. U.S. financial interests also have a major stake in this export oriented activity, since export earnings are used to pay interest on Mexico's crushing debt burden. Today, 40 percent of Mexico's export earnings are used to merely service their $95 billion debt

Any benefit derived by U.S. workers who lose their jobs as production is transferred, or Mexican workers who are being paid barely subsistence wages, is more difficult to discern.

Employment Impact on U.S. Workers

There has been considerable discussion and debate over the domestic employment effect of current U.S.-Mexico trade relations, as well as the potential employment impact of a free trade agreement. This is a debate that has been clouded through the use of supposedly sophisticated economic studies, and models, which tend to downplay any negative employment effects. This type of analysis merely serves to camouflage the obvious. The one thing we do know is that there are some 500,000 workers producing goods destined almost solely for this market. If our market was being serviced by domestic production, even taking productivity differences into account, employment would clearly be hundreds of thousands higher. Tens of thousands of workers across America in companies like Electrolux, Trico, Zenith, Westinghouse, Farrah, GE, AT&T, GM, Ford, Chrysler,- the list could go on and on, have seen their jobs disappear to Mexico. They, better than any model or projection can describe the employment impact of this type of trading relationship.

Beyond actual experience, common sense tells us that a free trade agreement with Mexico, a country where wages are less than one tenth those in the United States, is bound to impact negatively on U.S. employment and income. Why should firms invest in the United States if they can move a hundred yards across the Rio Grande River and dramatically reduce their labor costs? At minimum, such an agreement would have a significant downward effect on U.S. wage levels, as domestic companies sought to cut costs in order to compete with $.60 an hour labor.

No Help For U.S. Exports

It has been asserted that a free trade agreement will boost exports, and therefore improve the U.S. trade position. Administration officials frequently cite the huge Mexican market of 85 million consumers who presumably are clamoring to buy U.S. made goods. Unfortunately, the reality is somewhat different. Given the extreme poverty of Mexico, there are only about 10 million who are in the position to buy much of anything at all. The other 75 million are merely trying to survive, and provide themselves, and their families with food and shelter. Secondly, it is likely that a free trade agreement would encourage growth along the lines of the maquiladora program. In this economic structure there are no real exports. By definition, the U.S. content is returned. Indeed, it is estimated that 40 percent of U.S. exports to Mexico are brought back to the United States as finished products. This is not trade in the conventional sense of the word. The U.S. is merely renting low wage Mexican labor.

Competitiveness

The argument that the maquiladora program, or a full fledged free trade agreement is necessary in order for a company to become more competitive, is merely an attempt to justify what may be a company's easiest solution to competitive problems, but not one that is beneficial for the U.S. economy and American workers. The transfer of production to Mexico under these circumstances turns the traditional concept of international trade on its head. Here, an industry's competitiveness, or a nation's comparative advantage is not determined on the basis of the cost or quality of the completed product. Rather, comparisons can now be made for each stage of the production process in deciding on foreign or domestic sourcing. The historic strength of the U.S. economy has been based on a variety of factors, including a highly educated, productive, and well-paid work force, ample capital and natural resources, innovative production techniques, strong managerial skills, and continued technological advances. Together, these elements have led to the high standard of living enjoyed by so many Americans. This wealth, however, and its continued growth, requires high income levels. The maquiladora program, not to mention totally free trade, permit a company to separate decent and justified wage levels from all other aspects of production. Mexico's single comparative advantage is the poverty of its citizens and their willingness to work for subsistence wages. The skill, productivity and contributions of American workers become irrelevant in this context, and the growth of this activity threatens one of the essential pillars of the American economy. No matter how productive, U.S. workers cannot compete with labor costs of less than one dollar an hour.

Development

The huge differential in wages and its impact on economic development is illustrated by a pay stub (attached) from a worker at a Zenith plant in the Mexican city of Reynosa. For a 48 hour week, this worker, who is engaged in the manufacture of television and other electronic components, netted 71,700 pesos which, at the time, February of last year, translated into the sum of $26.16. Gross pay amounted to a mere $.61 an hour.

Even by Mexican standards, this is low and gives workers little reason to be committed to long term employment with a company or more fundamentally, to be committed to their community. Few workers have the benefit of union representation, and problems concerning occupational health and safety, and the environment are rampant.

Improvements in the quality of life, normally associated with the kind of economic investment witnessed in Mexico over the last ten years have not occurred. Indeed, investment has brought beautiful, brand-new production facilities. It has also brought a first-rate road from the plant to the U.S. border. But it has brought nothing to the communities where the plants are located. For example, it is estimated that between four and five hundred thousand people in Juárez, Mexico have no running water, sewers, or electricity. Workers in many of the plants are forced to live in dormitories, or in shacks made of packing materials from the factory. Their drinking water is contained in large 50 gallon drums that used to contain toxic materials. Schools, hospitals, and parks remain unbuilt.

A few years ago, when Mexican wages were actually higher in dollar terms than they are today, the Twin Plant News, a magazine supportive of industry, published an article on the subject of wages stating: "There are ways to keep the minimum wage people at minimum wage." The article suggested "free or subsidized lunches" and assistance with transportation costs. It also asked "How about a free kilo of tortillas each week or a few kilos of frijoles." It went on to suggest that the employees of the U.S. parent corporation could "clean out their closets of those items they'll never get to again" and send them to the Mexican plant for distribution, "where it will do the most good." Remember, "many of the houses (on the Mexican side of the border) are poorly heated, if heated at all, and warm clothing and blankets feel good on those cold nights." It strains credulity to believe that development in Mexico is assisted when people working 48 hours a week need handouts of food and clothing in order to survive.

Under these circumstances, any developmental gains by Mexico are marginal at best. Subsistence wages do not generate the demand necessary for a healthy and growing economy. Even if permitted, the workers could not afford to purchase the products they produce. Claims by some that the existence of these plants boosts the economy of the U.S. border region are simply not credible in light of $5.00 a day wages.

Indeed, the reverse seems to be true. Corresponding to the growth of U.S. investment in the maquiladora industry, there has been a reduction in Texas border income, relative to the national average, and an increase in health problems.

Today in El Paso county, for example, tuberculosis is double the national average, salmonella is three times the national average, and hepatitis A is five times the national average. A free trade agreement with Mexico will simply encourage more of the kind of economic activity that appears to be harmful to the very people it purports to assist.

Immigration

Both the U.S. and Mexican governments have argued that a free trade agreement will slow down illegal immigration by providing jobs in Mexico. Certainly, the creation of good jobs at wages that provide food, housing, and a decent standard of living, would encourage people to stay in their communities. Jobs at less than a dollar an hour, however, will not have that effect, and may actually serve to increase illegal immigration by drawing people to the border to work in the Maquiladora industry, who, after a short time, will continue on into the U.S.

Beyond the question of immigration, the issue of labor mobility, despite U.S. government assurances to the contrary, will be addressed in the proposed negotiations under the subject of trade in services. Mexico will be seeking, as it has done in the Uruguay Round of trade negotiations, easier access for its population to enter the U.S. market on a "temporary" basis to provide services. In their submission in the Uruguay Round, the Mexican government stated "The expansion of the service exports of developing countries and their increased participation in world trade in services depends on the liberalization of cross border movement of personnel covering unskilled, semi-skilled, and skilled labor, and that effective access to markets for their service exports can mainly be realized through this mode of delivery." Temporary entry for providers of services was expanded significantly in the U.S.-Canada free trade agreement, and there is no reason to believe the outcome will be different with Mexico.

Social Protections and the Environment

Beyond the question of wage differentials, the vast differences in regulatory structures and social protections cannot help but create serious difficulties for U.S. production. In one sense, the establishment of a U.S.-Mexico free trade area would be, in commercial terms, no different than if one drew a circle around the city of Houston and said, for example, that inside that circle U.S. minimum wage or child labor laws wouldn't apply, occupational health and safety regulations need not be observed, workers compensation and unemployment insurance need not be paid, and environmental protection laws could be ignored. All these standards, and others like them impose costs on U.S. producers. We as a nation, however, have decided those costs are necessary to improve the standard of living of all our citizens. In Mexico, there are no such costs to be borne.

Noting this problem, one article, in a series on the Maquiladora industry published by the Arizona Republic, cited a Tucson based consulting company that sends prospective clients a flier stating that one of the advantages of doing business in Mexico is "minimal government regulator controls, i.e., no OSHA, EPA, EEOC, AAP, Air Quality Control, etc." This newspaper series also cataloged a variety of problems confronting workers in the Maquiladora industry, including the employment of a 13-year old girl by General Electric on the 4:30 PM - 1:30 AM shift, making electric wiring strips, the mishandling of toxic materials used in production

processes, and the resulting pollution problems, and the growing use of used chemical drums by workers to hold drinking water.

The impact of different regulatory structures was also highlighted in a May 14, 1990, Los Angeles Times article on the Southern California furniture industry. According to the L.A. Times, furniture makers have been leaving Southern California and setting up production down the road in Tijuana, in order to escape tough environmental rules imposed in 1988, concerning the use of solvent-based paints, stains, and lacquers. By moving, they also avoid paying California's workers' compensation insurance premiums, which, because of the hazards of woodworking, cost employers a basic rate of $.19 on each $1.00 paid out in gross wages.

The tragic irony of this is obvious. The pollution that California sought to eliminate remains. It merely originates a few miles away, across the border. Workers in the U.S. have lost their jobs, and Mexican workers are endangered by the absence of effective health and safety regulations.

On a larger scale, the Federal Clean Air Act, enacted into law last year, will impose even wider-ranging costs on domestic producers, and may generate more transfers of production to Mexico. The solution is not to lessen the effort to reduce pollution, but to recognize that such efforts produce related problems that must be addressed.

All along the U.S. Mexico border, drinking water supplies and irrigation waters are being polluted, and fish and wildlife face extinction. The fragile ecosystem is endangered by indiscriminate dumping of waste in land dumps. The region lives under the threat of toxic poisoning caused by transportation or industrial accidents. Adequate waste treatment facilities are lacking on both sides of the border, and health problems are skyrocketing. Mexican workers in the maquiladora plants are frequently denied basic health and safety protections against occupational illness or disease, and they risk the loss of their jobs if they protest these dangerous conditions. Commenting on the maquiladora industry, the Wall Street Journal on September 22, 1989 stated "Their very success is helping turn much of the (Mexico-U.S.) border region into a sink hole of abysmal living conditions and environmental degradation." A March, 1990 report by the U.S. International Trade Commission quotes two Mexican government officials on environmental problems. One stated "protecting the environment is a luxury activity: it has a price." while another states that "Mexico does not want industries that pollute, but we must remain competitive, that's why we don't push environmental enforcement."

What Can Be Done

AFL-CIO believes that the huge differences that presently exist between the U.S. and Mexico make the establishment of a free trade area both damaging to U.S. workers, and of little benefit to Mexican workers. It would only serve to perpetuate a division of labor that separates the people of the two nations into low cost producers on the one hand, and consumers on the other. In order to prosper, people need to both work and consume, and U.S. efforts should be directed to that end.

The problems of poverty and economic development in both the U.S. and Mexico are too serious to be left to the interests of private capital. Significant debt relief, so that Mexico can invest in its own future, foreign aid, so that standards and enforcement mechanisms can be improved, development planning, and efforts to raise the wages and living standards of Mexicans, as well as efforts to address the current environmental degradation of the border area, are all elements that must be dealt with on a governmental level. This is particularly true with respect to those American-owned manufacturing plants, the maquiladoras, in which exploited Mexican workers produce goods for the U.S. market. The Bush Administration's free trade proposal does not address any of the factors that are vital to improving the relationship between the United States and Mexico. Granting the Administration fast-track negotiating authority will ensure that these issues are either ignored, or side-tracked into separate commissions, studies, or committees.

Fast-track authority is not necessary to negotiate with Mexico. Congress can direct, and the Executive can undertake discussions without this special authority. Any agreements reached would then have to be brought back to Congress for its consideration under normal legislative procedures. The AFL-CIO believes that if the problems between the U.S. and Mexico are to be addressed in a positive fashion, Congress and the American people must play a major and continuing role. The issues noted above must be dealt with before any consideration is given to further trade liberalization, so that the majority of people in both countries will benefit, and not be harmed, by international trade. Rejection of "fast track" negotiating authority is essential to insure the realization of this goal.

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EMPLEADO	DEPTO.	C. DE COSTO/CUENTA	NOMBRE DEL EMPLEADO	REG. FED. CONT.

CONCEPTO	HORAS	PERCEPCIONES	CVE.	CONCEPTO	DEDUCCIONES
01 ORDINARIO OBR	48.00	60,480.00	0122	APORT. FONDO A	4,234.00
04 SEPTIMO DIA		10,080.00	0161	DESC. DESPENSA	5.00
07 BONO TRANSPORTE		11,400.00	0245	CUOTA SINDICAL	2,117.00
			0506	CUOTA IMSS	3,858.00
IET CUPONES NETO		7,500.00			
TOTALES		81,960.00			10,214.00

RECIBI DE LA COMPAÑIA ARRIBA INDICADA EL SALARIO QUE ME CORRESPONDE POR LOS DIAS TRABAJADOS A LA FECHA QUE DETERMINA ESTE RECIBO NO RESERVANDOME ACCION LEGAL QUE EJERCITAR, PRESENTE Y FUTURA EN CONTRA DE LA EMPRESA POR NINGUN CONCEPTO QUE SEÑALA LA LEY FEDERAL DEL TRABAJO NI DE NINGUNA OTRA NATURALEZA.

PAGO NETO $71,700.00

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Chairman GIBBONS. Thank you, Mr. Donahue.

Is there any country or group of countries on earth that the AFL-CIO would like to enter into a free trade agreement with?

Mr. DONAHUE. It would depend, Mr. Chairman, on how you would define a free trade agreement, and our analysis of the benefits of such an agreement to American workers.

Chairman GIBBONS. One like the Canadian agreement.

Mr. DONAHUE. Like the Canadian. We did not see in the proposals for a Canadian Free Trade Agreement the benefit to American workers, Mr. Chairman, and we do not see them today. We do not see the results of that agreement as having been beneficial to American workers. That agreement perpetuates for a 10-year period the imbalance in our tariffs alone.

Chairman GIBBONS. Your answer is no, there is no country on earth that the AFL-CIO would like to enter into a free trade agreement with?

Mr. DONAHUE. I think if that is how you construe my answer, Mr. Chairman, you are free to do that, but it is not an answer I would give.

Chairman GIBBONS. Well, what answer would you give?

Mr. DONAHUE. I would say, as I did to you, Mr. Chairman, that I would have to look at the benefit to American workers of such an agreement. That is what the American Federation of Labor and Congress of Industrial Organization exists for.

Chairman GIBBONS. How about Japan? Their wages are apparently higher than ours.

Mr. DONAHUE. Mr. Chairman, I do not know if a free trade agreement with Japan would benefit American workers. It is hard for me to imagine that.

Chairman GIBBONS. How about with the European Community that you have just praised so highly?

Mr. DONAHUE. I would think, Mr. Chairman, that this Nation would benefit much more by looking to the negotiation of a free trade agreement with the European Community. In that way, we might insist that they take down their barriers against the import of American and Japanese autos, we might blow open their agricultural market, we might accomplish a number of worthwhile objectives in negotiating with the EC, yes, sir.

Chairman GIBBONS. Good, I am glad to hear you say that.

Mr. DONAHUE. And the disparities of income that I object to in the current negotiations would not exist to the same extent in the European Community, Mr. Chairman.

Chairman GIBBONS. Since I have got you here, Mr. Donahue, let me call your attention to this: The AFL-CIO supports very vigorously the current income tax system that the United States practices. Let me call your attention to what it does to your membership. Let us just take this pair of glasses that I have got on. The glasses had to be ground locally. I just happened to look at these. I bought these last week and they were made in Germany, the frames, but let us suppose they had been made in America.

If we exported those frames from America, when they left the U.S. boundary they would carry the full cost of the U.S. Government with them. When they went into Germany, they would add their cost of government to them, so when these frames arrived in

Germany to be sold at retail, as they were here in America, they would carry two costs of government with them, or about 30 to 40 percent of the ad valorem cost of the frames.

These frames were manufactured in Germany, so when they left Germany, they shaved off the cost of government there through their tax system, and when these frames came into the United States, we added nothing to them. Now, your job is going to Germany and to the other countries under the current tax system that we have. Probably the biggest impediment to jobs of your union members and to jobs in the United States that we have is the current U.S. tax system.

I just wanted to call that to your attention, because I do not get a chance to talk with you like this all the time, have you think about it, and just tell me where I am wrong, when you have an opportunity.

Mr. DONAHUE. Mr. Chairman, can I give you the name of a different optometrist? [Laughter.]

Chairman GIBBONS. Well, I did not go to an optometrist, I went to an ophthalmologist and I happened to try on all the frames that he had in the place. I had my wife with me and everybody else, trying to improve my appearance, and this was the best pair of frames I could get.

I did not notice that they were German until I was here yesterday and I was kind of bored with some of the testimony I was reading, and I looked at my glasses and found that they were made in Germany. [Laughter.]

I had you here and I thought I would—have explained this to Mr. Cunningham and I thought I would explain it to you and see if I could kind of get some response from you about our tax system and its impact upon the members of your union.

That is not the purpose of this hearing today, so we will just drop that for right now.

Mr. McGrath.

Mr. MCGRATH. Thank you, Mr. Chairman.

Maybe I am a little near-sighted, too.

I can understand perfectly your objection to the agreement, in terms of lost jobs. I mean that is your job. It reminds me of the last time Bob McGlotten from your organization came in to see me regarding the minimum wage bill, and he said he was promoting it and I said, "Now, Bob, give me a good reason why you are here. Every single person in your membership makes five or six times perhaps the minimum wage in the United States, and I said why are you here?" He said, "Well, if labor would not be for an increase in the minimum wage, who would be?" I suspect that is why you are here, in order to protect the jobs of American workers.

To the extent that, perhaps a free trade agreement would open up a new marketplace and thereby produce jobs perhaps in other sectors other than those you represent, do you feel it has any benefit at all?

Mr. DONAHUE. If any agreement, Mr. McGrath, opens up the possibility of selling more U.S. exports, I would think that is a plus for American exporters. Sure, I would think that is a plus, if you were able to sell more. The question before the House is how much more are you going to sell to the 89 million people in Mexico who have

an average per capita income of something like $2,000 a year, 9 percent of the United States per capita.

To look at that as a great market just defies all of the economic logic I was taught. There is not great purchasing power in Mexico.

Mr. MCGRATH. At this point, I agree with you.

Mr. DONAHUE. That is right.

Mr. MCGRATH. In terms of some of the other objections that we heard over the last couple of days, in terms of the environment, do you feel that the environment in Mexico would be worse as a result of this trade agreement, or better as a result of some of the things that we could negotiate into it?

Mr. DONAHUE. Well, I do not hear anything being said about negotiating anything into a North American common market agreement that has to do with the environment. In Ms. Hills' testimony, she has said that the Mexicans have said that is off the table, that is a side agreement, we will negotiate that separately, so I do not see anything coming on this vital issue.

Will a United States-Mexico arrangement heighten the environmental degradation that the Wall Street Journal speaks of? Yes, it will, so long as American manufacturers go down there for cheap labor, without regard for the communities, without regard for the infrastructure. They will do what they have done in the past.

Mr. McGrath, I saw the other evening a film which was done 5 years ago by the Christian Science Monitor news reports, which was a half-hour presentation on what the Christian Science Monitor perceived in 1985 as the problem of environmental degradation along the border caused by the maquiladoras. In 1990 and 1991, we are talking about that same environmental effect and we are talking about the Mexicans are going to catch up with it and we are going to negotiate something. I have no faith in that, sir.

Mr. MCGRATH. One of the other concerns has been that of exploitation of the workers in terms of hourly wages and weekly wages and whatever, and, of course, workers' rights. If something could be negotiated to perhaps scale up the wages, provide benefits, introduce workers' rights that we enjoy here in the United States and in others countries, would that mitigate against your opposition to the FTA?

Mr. DONAHUE. If some of those things could be negotiated, I have no idea what the result would be. We think it is essential that all nations have some sort of standards on those issues. We think for nations with whom we form a common market, those standards should be as near to identical as our own as possible, or else we should be willing perhaps to reduce ours to theirs. I mean it could go either way. We should perhaps be willing to do that.

None of that, Mr. McGrath, is going to be very much examined by the U.S. Trade Representative in 6 months or by this Congress in 60 days under a fast-track procedure. Yes, I think all of those things should be looked at. Yes, I think they should all be negotiated and raised with the Mexicans and with the Canadians. No, I do not think they can be done and you can consider those issues under a fast-track procedure. It did not work in Canada for this committee, and it is not going to work in Mexico for this committee.

Mr. MCGRATH. Well, we are in the same boat as you are. But to preclude the consideration of such a negotiation prior to its delib-

eration, in my judgment, perhaps is putting the cart before the horse. Perhaps we should wait and let this thing go and see what the eventual outcome would be, and then decide at the end, up or down, whether or not it is worthwhile. I am more than willing to keep my mind open for that kind of a judgment.

It does seem to me a little presumptuous to be opposed to the negotiation before we know what may or may not come out of it. Let me ask you this one further question: Are you or is the AFL–CIO for or against further extension of the fast-track provisions, as they would apply either to the the Uruguay round, or to this particular FTA?

Mr. DONAHUE. I gather the President is sending out signals that he will ask for an extension of the fast track for GATT, but has not yet done so. I believe, Mr. McGrath, that we would oppose the extension of fast track for the GATT round or any further extension of the fast-track authority, for the same reasons that we opposed it initially, and I think those reasons are borne out in the GATT negotiations.

We have said over 4 years now that there was a deadline to those negotiations. We had certain negotiating goals which this Congress laid out and we said those had to be achieved in 4 years, and we told 90 negotiating partners that was the process, and they said no, you know, they just cannot meet that schedule, and so we will have to extend and you can give them further authority to come back in here in 60 days to consider that.

We do not think that is the way to negotiate. I have done enough negotiating to know that one negotiates at the last moment and one makes a deal under a deadline or one does not. I do not think the extension of the fast track for the GATT is warranted.

Most important, Mr. McGrath, I do not want to be misunderstood on the question of negotiation with Mexico or with Canada, since there are ongoing negotiations with Mexico now to shorten the integration period under the Canadian Free Trade Agreement, and that obviously is going to be folded into the Mexicans. I do not want to be misunderstood on the subject of negotiation. The American Federation spends its life negotiating. We believe in negotiating. We believe in rational process for negotiation. We do not believe in fast-track authority.

I think we should be negotiating with the Mexicans, we should be negotiating about cleaning up the Rio Grande, we should be negotiating on the environmental structure, as we are, we should be negotiating on tax treaties, as we are, we should be negotiating on a whole range of issues having to do with the living standards of the people in Mexico. We should be advocating in this Congress developmental assistance and aid for Mexico, to enable them to raise the standard of living of Mexican workers, so that it comes into some sort of proximity with American workers, and at that point we ought to be talking about the availability to us of a market of people who have decent wages.

The argument for going into Mexico at this time with a common market agreement is that it is an enormous market, it is 89 million people. I submit to you that there are even more people than that in the Caribbean and Central America and Latin America. The

logic is the same. The people there, so we ought to have a common market with them. It is simply false.

We ought to negotiate with Mexico. You ought to authorize specifically—you do not have to, I gather, specifically authorize. The President has the authority to negotiate with Mexico. There is nothing wrong with that. We ought to be negotiating on tariff barriers. We ought to start with the proposition that the Mexican tariffs are 12 percent and ours average 4, how about bringing those down. There is nothing wrong with such negotiation. We ought to negotiate on environmental issues and all the other things.

It is just economic madness at this point to call for negotiations on a common market, with a nation one-quarter the size of ours, which has 9 percent of the gross national product. It is just absolute lunacy. The first result will be that the 500,000 Mexican jobs on the border assembling United States parts will now be assembling Mexican parts. That means there will be a diminution in U.S. employment to the extent that we are now gainfully employed manufacturing those parts that are used in the maquiladoras.

A free-trade agreement will wipe out the need for use of U.S. parts in the maquiladora. It will open the backdoor of the maquiladora so that they can sell in Mexico. They can produce in Mexico and sell in Mexico. There are no American jobs in that scenario.

This Mexican market which is going to be opened up to us is going really to be opened up for American investment. If the Mexicans want anything, they do not want our products, they want our investments. So, what will be opened up is the opportunity for American capitalists to invest in Mexico, to manufacture in Mexico and to sell in Mexico. What advantage is there in that for American manufacturing workers or for American workers generally? There is none. There will be no jobs created in this country manufacturing product sent into Mexico. It is just not going to happen.

Mr. MCGRATH. Thank you.

Chairman GIBBONS. Mr. Jenkins.

Mr. JENKINS. Thank you, Mr. Chairman.

Thank you, Mr. Donahue, for your testimony. I know the Chairman indicated, in his colloquy, that we have a real problem because a lot of other nations have the value-added tax, and we do not. Therefore, on exports it gives us a problem, as it does with imports. I think there is an imbalance, and there is a great deal of merit, it appears to me, to that contention. Unfortunately, in this agreement, we won't get to vote on a value-added tax, I would assume. When we vote under a fast-track authority, it will be an up or down vote on the trade agreement alone, regardless of how we may feel about a GATT.

And I assume that some of your concerns with the fast-track authority are with the simple fact that there may be things in the agreement that we agree with, a lot that we object to, but that we don't have any choice, we simply have to vote yes or no under the fast-track authority. Is that part of the concern that the AFL-CIO has?

Mr. DONAHUE. Precisely and I submit to you that the eventual agreement on the GATT will come back to this committee under fast-track authority. You will look at it and you will say, boy, this is a terrible thing. What they have done here is to give away item

A, or B, or C, whichever, but there's nothing that you can do about that in the total context of the GATT agreement. So we'll have to vote it up.

That's a terrible way to legislate. That's a terrible way to deal with the jobs of the American workers; a terrible way to deal with the American economy.

Mr. JENKINS. I tend to agree with you on that. I think that with some of the tax reform packages that we've had, I've heard members, maybe including the chairman, say, this package is awful. But when we only have a vote of up or down, we'll probably vote for it.

So, I have some of the same concerns with the fast-track authority. We, as individual members of Congress, do not get an opportunity to shape or change the agreement under the fast-track procedure.

I want to digress just a moment over to the European Community consortium. You indicated that they are going to conform a lot of their individual environmental requirements, as well as a large variety of other factors, and make them uniform, is that correct?

Mr. DONAHUE. Yes, sir.

The Community established probably as a direct result of the Treaty of Rome, or out of the European Parliament—I don't know which—established probably 20 years ago an economic and social committee and a social commission to take a look at, first what was the information available from the 12 nations in the Community; what were the social conditions; what was the status of their laws and so forth?

That commission has gathered information, compared those conditions. In 1989, as the Community agreed to move toward the single market in 1992, the Community authorized that committee to develop a social charter to include therein—I just looked at the 1989 document the other night, Mr. Jenkins—it is about a 50-page document with probably 75 different elements of social life reflected in it. It is to examine what are the minimum wage coverage provisions in the 12 communities; how would you standardize that coverage; how would you prevent child labor being exploited in one country to the disadvantage of another; how would you deal with variances in occupational safety and health; how would you deal with equality for minorities and for women; how would you deal with questions of what they call the professional insertion of youth into the market and their training; how would you deal, in those 12 countries, with the elderly and discrimination against the elderly in employment?

The list goes on. There are an enormous number of issues being incorporated into a social charter by 12 nations, agreeing that in some way we agree to have general conformity on these issues. Because we don't want 11 nations to be advantaged by the 12th, which allows 12-year-olds to work, or which allows people to work for wages one-tenth of what are paid in the other countries.

Mr. JENKINS. So their agreement, over a period of time, eliminates the disparity in wage rates?

Mr. DONAHUE. It will, yes, sir. I am sure that that won't be legislated but that will be the eventual result of the agreement. It will, initially, begin to affect wage rates by adjusting minimum wages in those nations.

Mr. JENKINS. I see. So that is one of the problems you see with this proposed agreement, that those things will not be on the table, as such?

Mr. DONAHUE. Yes, sir. And these were not problems in the Canadian-American negotiations, in the initial negotiations. Canadian wage rates are 90 percent or more of United States rates. The standard of living is comparable. Many of the corporations operate across the border. We have a long relationship. There were no serious disparities and such.

Our analysis of the Canadian free trade agreement at the time was that it would do something more than marginal harm to American work opportunities but we could not have made and did not make, before this committee or anywhere else, the kind of case that we want to make against the similar agreement with Mexico or the inclusion of Mexico in such a free market. The disparities are just enormous. They are at least 10 times greater and the effect will be 10 times more serious.

The Canadian labor movement, the Canadian Labor Congress was—I think they couldn't make the case as forcefully as I hope we can make ours against Mexico, but the Canadian Labor Congress—was disadvantaged in the negotiations and argued that Canada would be disadvantaged in a Canadian-United States free trade zone because jobs would leave Canada and come to the United States. Because in the southern parts of the United States, and in the Southwest, they could get cheaper labor than they could get in Canada, and therefore, they would be disadvantaged there.

The Canadian Labor Congress argues today that Canada has lost between 120,000 and 160,000 manufacturing jobs in plants that have left Canada and come to the United States. I can't document the figures, these are their statements. But they made the case that Canadian firms would be running away to the lower wage areas in the United States. We're going to make the case that that is as nothing as to what the future holds for the United States and United States firms running away to Mexico, or later to Central America or Latin America.

Mr. JENKINS. I know that your first obligation and our first obligation is to the American worker. But don't you feel that we do have maybe a greater obligation to the citizens and workers of countries that are contiguous to us, than we do to those in the Pacific or wherever?

Mr. DONAHUE. I'd find it hard to say, from a moral standpoint, that we have a greater obligation because of geographic proximity. I think we have the same obligation to people everywhere, Mr. Jenkins, but the political realities are not the same at all. The political realities are that we must be more concerned about those neighbors that are in closer proximity to us, and particularly in this case, the Mexicans.

Mr. JENKINS. Self-interest mandates that, does it not?

Mr. DONAHUE. Sure, I absolutely agree that our political self-interest lies in creating the strongest ties that we can create with Mexico and in making Mexico as valuable and viable a partner as we can. The way to do that is not by putting a Mexican free trade agreement or a North American free trade agreement on a fast

track in this Congress. That is not the way to improve the relationships between our two countries.

We need to help Mexico develop. The traditional way of doing that in the United States is to give foreign aid. Since World War II, we have helped rebuild economies all around the world, and we ignored Mexico, largely, but we helped rebuild economies all around the world, very properly and in our own self-interest, and we ought to do the same with Mexico. The difference is that this Nation now has no dollars to spend. We are a debtor nation and so we can't give foreign aid, so, oh, well, let's give them our jobs.

The political reality is very clear. We need to strengthen political ties with Mexico. Now, how can we do that? How shall we advantage the Mexicans? Let's give them the opportunity to have more jobs. Let's allow Americans to invest in Mexico more than they are able now. Let them have full ownership of plants. Let's encourage them to invest there and see if that helps Mexico.

And what if there is some damage? The ITC says there will be some damage in the short term. I don't know what that is either. But there will be some damage to some of the people. We think they mean 57 percent of the people, but be that as it may, there will be some damage to some of the people. But that's OK, in the whole scheme of things, you have to break a few eggs.

Well, we just can't take that view. If you ask me, do I think that 50 years out, this nation and Mexico would benefit from a Common Market with Canada? Yes, I do. I do not believe that getting there is going to be half the fun, however. And I do not believe that it is logical to start this way. And to embark upon this enormous restructuring of the economy—and I submit, the eventual restructuring of the sovereignty of our nations and the political relationships of our nations—to embark upon that in a negotiation run by 6 or 10 people in USTR's office, in the dark for 6 months, and presented to you in 60 days, I do not believe that is the way to remake the face of North America.

Mr. JENKINS. Thank you, Mr. Donahue. I agree with a lot of your concerns just as I have some trouble with others who speak in terms of averages that don't look at specific difficulties faced by individuals. It is much like sticking one foot in a bucket of ice water and the other in a bucket of hot water and it ought to make you feel good because it averages out to being warm. Sometimes it does not.

Thank you, very much.

Mr. DONAHUE. Thank you, Mr. Jenkins.

Chairman GIBBONS. Mr. Downey.

Mr. DOWNEY. Mr. Donahue, let me just ask you one question. I was a supporter of the United States trade agreements, both with Canada and with Israel and was the latter's author. But I find myself concerned, as do many of my colleagues, that this is a substantially different circumstance.

You have really addressed this, but I want you to address it more generically. Wouldn't it be impossible to integrate a country of 89 million with lower wages with 1 of 250 million without having some depressing impact on its wages, both in the short and medium-term? Is that not really an inescapable and iron-law of economics?

I am happy to believe and I have been over the years a free-trader and would like to consider myself still one, but I don't see how, in this instance, we could go back to the American people and say, well, we've decided that there may be long-term benefits here, but for the short term, the integration of our two economies means depressed wages in the United States?

Mr. DONAHUE. I think, Mr. Downey, you just defined what's wrong with the term, free trade agreement. It's not free. There's no free lunch. There's no free trade to be achieved here. It is going to come at an enormously high price. And I'm only suggesting to you that that enormously high price ought not to be dictated by the USTR and submitted to you for a yes or no, vote.

Mr. DOWNEY. I am as troubled, as well, by the possible extension of GATT. I'm not sure, notwithstanding what Ms. Hills said yesterday, that additional deadlines are going to be that much more productive. This does not seem to me, at first blush, the way to handle this problem, basically as ceding enormous authority very quickly. Because the fast track basically saves the Congress from itself. I mean that's really all that it does. It just prevents us from having additional room to maneuver. And I'm not sure that in this instance that is exactly the way that I want to proceed.

May I ask you one question about the Salinas government? President Salinas seems, to me, to be a very decent and good man. I also harbor the suspicion that the party stole the last presidential election. Maybe I shouldn't be concerned about that. That is a uniquely internal Mexican affair. But it does concern me. Does it concern people in the labor movement as well?

Mr. DONAHUE. We have a long relationship, Mr. Downey, with the trade union movements all around the world, as we do with the CTM of Mexico. And we have had annual meetings with them, I guess, over the last 3 or 4 years, urging them to be more active in organizing in the maquiladora plants, urging their greater concern about the environmental conditions along the border, and urging their speeding up their efforts to stop the exploitation of Mexican workers by American companies.

I have no way of judging the situation in the pre—or the situation in the last elections. But we certainly share the view that Mexico, as any other nation in the world, ought to have a fully democratic structure that is subject to standing up to the scrutiny of Americans; since we are doing the scrutinizing, it should be able to stand up to our scrutiny.

May I just note, Mr. Downey, on the subject of the bringing up, in your question, of isn't it inevitable that there is some downside effect as you move to change things in the world; I think that's absolutely true. I submit to you that it shouldn't be done in a fast track process. But more importantly, I would argue again, that it shouldn't be done by saying to manufacturing employment, people in manufacturing employment or to the unskilled—as the ITC puts it—well, you pay the price; you can't expect the capitalists and the venture capitalists who are investing in Mexico to pay the price; you pay the price.

The way in which we have dealt with this is to help countries to develop. We do that through trade, aid, debt relief, and a whole series of measures looking to their development. We gave such

trade and assistance to Israel and brought it to a point where a free trade agreement with Israel had very little effect on American or on Israeli workers.

We have helped to rebuild nations all around the world using that formula. And now we're proposing a different formula. This one is give them our jobs. And that is unfair. That is simply unfair to ask a small portion of the population to pay for the development of Mexico.

Mr. DOWNEY. Well, I would submit and it will be later in the testimony, that the representative of the ILGWU makes the point that we have 2 million fewer industrial jobs in the United States than we did 10 years ago. The average wage rates have fallen 10 percent over in the last, and that wages of young, male high school graduates have fallen 28 percent since 1973. This is a level of social dislocation that has many different reasons, but it certainly shouldn't be ignored because it is a real and present danger to American workers.

Mr. DONAHUE. I would submit, Mr. Downey, there is not the offsetting good that even a detached academic could find in the maquiladoras which are largely responsible for many of those conditions. The offsetting good that is argued that I heard Ambassador Middendorf argue is that we have created jobs on the American side of the border. Well, that's simply—that may be true, but it is true to a very small extent.

The Twin Plants Association did a study of El Paso and Juarez—Juarez, which had something over 100,000 maquiladora jobs. The Twin Plants Committee found that job expansion in El Paso was tremendous. We built great service industries to service those plants and they documented the growth of 7,500 jobs in El Paso. Ambassador Middendorf said, we have huge facilities on this side of the border. We do. They are warehouses, they are warehouses. The manufacturing plants are on the other side.

Johnson & Johnson employs 175 people in a warehouse in El Paso and they employ 2,200 people in a manufacturing plant on the other side of the border. Now, they can move the warehouse across if they want to, when Ms. Hills gets through with this negotiation. They can solve it all.

On the border, you stand on the border at any crossing point and watch the transfer of goods between the maquiladoras and the warehouses on this side. It is done entirely in Mexican trucks that look like they are about to fall apart. I submit they are hazards on the highway. The Texas police have no authority, no authority to deal with that question. Only Mexican trucks can transport product back and forth. United States trucks are not allowed into Mexico, into the maquiladora plants.

That's what we have allowed to happen. Those trucks will be in St. Louis; they will be in Chicago; they will be in Long Island under a free trade agreement.

Mr. DOWNEY. They might have trouble making it all the way to Long Island. [Laughter.]

Mr. DONAHUE. They might have trouble.

Mr. DOWNEY. Thank you, Mr. Donahue.

Mr. DONAHUE. Thank you.

Chairman GIBBONS. Let's see, Mr. Pease?

Mr. PEASE. Mr. Chairman, I am sorry I was over on the House floor and was delayed in getting here. I would like to let Mr. Donahue know that I will read entirely his testimony but I think I can reasonably guess the thrust of that testimony.

It is testimony, I must say, that I agree with and I am pleased to have a distinguished and knowledgeable person like Tom Donahue here to participate in this debate which I already think is a critical debate.

In the short time that I was here, you made a comment in response to Mr. Downey's question, that really almost gets to the crux of what we're talking about. You said, that those who support the FTA are essentially saying to the ordinary workers of America, you pay the price for the economic development that is going to take place in Mexico, and if there is some on our side of the border as well. Not the owners of capital, not the professional people, not the C.P.A.s, the engineers and others.

And I think that the American people, the working people of America ought to understand that. Somebody is going to pay a price but it's not going to be the people who own the factories either here or in Mexico; and it is not going to be the bankers, the accountants, the engineers, the computer designers. It is going to be the people who go to work 8 hours a day for a job, and finally, after many years, earn enough to have a middle class lifestyle in our society. They are the ones who are going to lose it. People in my area, blue-collar workers, are very concerned about losing their own jobs, but even more, they don't see the same opportunity for their children which they had. And that depresses them even more than the prospect of losing their own jobs.

Whenever anybody talks, as the economists generally do about the value to both economies in an FTA, they talk in gross numbers. They talk about jobs being created, they don't talk about kinds of jobs they are going to be. They talk about an increase in the manufacturing sector, or at least the manufacturing sector holds its own. But those are gross numbers, they are not employment numbers.

So I really commend you for helping us to focus in on that critical issue of this whole discussion. I hope that we can count on your continued involvement and support for this debate.

Mr. DONAHUE. Thank you, Mr. Pease.

The problem is not alone in the loss of jobs. Another part of this problem occurs in the efforts to maintain the wages of American workers. It is commonplace in manufacturing negotiations to be told, well, you will have to give us a concession, because if you don't, we are out of here. We're going to Mexico, we can produce there. We will move. And I can cite you chapter and verse of the General Electric facility in which the negotiator opens with the statement that we must have a $2-an-hour concession or we will move the plant to Mexico.

So the depressing effects on U.S. wage levels occurs in a variety of ways.

Mr. PEASE. Oh, yes, well; you're entirely right about that, too. I run into that in my own district. Unfortunately I have run into it in the last 20 years as the U.S. plants or Ohio plants have tended to move down to the southern part of the United States. Now,

we're seeing a different dimension where they're moving to Mexico, instead.

But there is that threat. Gee, we'd love to give you a pay increase but we're facing competition. We can't do that. We figured out we can do it cheaper in Mexico than we can do it in the United States. If you agree to a $2-an-hour wage concession then we might be able to keep this plant open another year, maybe another 2 years. But if you can't, as you say, we're gone.

So it is a continual pressure every time a labor contract comes up and ultimately the owner says, well, we can just do it cheaper in Mexico, no matter what you do. So the jobs are lost altogether.

Thank you, very much.

Mr. DONAHUE. Thank you.

Chairman GIBBONS. Mr. Guarini.

Mr. GUARINI. Tom, it is good to see you again.

As always, you are very clear and very forceful and are a very strong advocate for your cause. You have explained your position very, very well.

One thing that was very apparent was that you recognized that somewhere down the road, perhaps a long time from now, there should be a regional market, which then, of course, could link Canada, the United States, and Mexico. And apparently it's the standard of living which is the major concern that you have because of the differential between wages. And one cannot deny that they are enormous.

We know that there is an enormous drug problem that comes up from Mexico. We have 2,000 miles of unguarded border. Now, we get numb by just saying, drugs, we see it in the papers all the time. But when you get down to it, most of the crimes that are committed in America is because of drug-related crimes. Most of the murders, most of the imprisonments, most of the law enforcement costs, a huge part of our health costs, our broken families—which are working men and women in America—the safety in our streets. There are hundreds of billions of dollars that are directly and indirectly affected as a result of the drug problem coming up through Mexico, and the working men and women are paying for that. They are paying for that in the form of taxes, and they are paying for that in the form of health.

Now, I know labor is concerned with that, and there has to be an answer to that problem, and so far, there has not been one, because there are more purer, cheaper drugs on the streets today than ever. And to many people, our AIDS epidemic and our drug problem has gotten out of control—300,000 people who have already been cumulatively treated for AIDS in our country and that is drug-related and HIV, intravenous use.

Now, we have an immigration problem. Millions—no one knows exactly how many millions, 6 million, 8 million, 10 million—people, illegal aliens coming up from Mexico, through Mexico from 76 different countries which is another huge cost. In fact, they are starting to win cases in the Supreme Court arguing that they ought to be entitled to due process of law. As a lawyer, you can well appreciate how much this is going to eventually cost us in the way of health, and social and education costs, etc.

And the working men and women are paying for that, in this country. And then we have a national security issue that is an enormous issue. And our military expense, now we have a war 6,000 miles away. Hopefully it will never be in our own hemisphere, that will be right next door to us. But if a country falls economically it could be a threat to our own national security interests. That is costing the working men and women hundreds of billions of dollars a year to support our defense system.

So it's not that Mexico does not affect the United States economically, socially, or politically, it does, more than probably any other single country. Now, for the first time in many years we have a man in office, President Salinas, who has a vision for the future; who is trying to do what's right environmentally; who is trying to do what's right in law enforcement and with the drug problem, cooperating with the United States. And we have a friend there that's saying, why can't we have a regional market and use trade as a currency of peace between our countries and be able to develop a program, a blueprint for the future?

Now, when we had a free trade agreement with Israel and with Canada, we talked about spacing it out 10 or 15 years. Well, maybe because the problems with Mexico are so egregious we should talk about 25 or 30 years. But the fact is we have an opportunity now, long-range opportunity and if we talk about safety and health standards, labor standards, environmental standards, and we spend $56 billion over a few months war, why can't we have TAA? That would really address the problem of the hundreds of thousands of jobs that would be affected.

And what I am trying to say is that there are answers to our solutions if we are willing to sit down and work toward them. Now, I wouldn't go for an agreement that's not the right kind of agreement. But in my mind, if you were our USTR person, I'm sure you could come up with an agreement that would be satisfactory to Congress, that would have the input of labor and have the imprimatur of labor. There are answers and it's just the matter of what kind of a vision do we have for the new order, if I could use that term, of the world of tomorrow?

I know that you have a broad view of what our Nation is about and I can't think of anything more important to us than what's happening within our own hemisphere and what's happening with our own immediate neighbors where we have a 2,000-mile border that is unprotected.

I just would like to have a comment from you that if we really had answers to the environment, health standards, labor and all of those kinds of issues, and if we resolved our drug problem, and immigration problem and all of the other nagging problems which are frictions between our two countries, wouldn't you feel that would work out? That if you spaced it out long enough—you know the Chinese think in terms of generations, and we think in terms of quick fixes. There is no quick fix here. We don't want anybody to get hurt. But in the long run, there is a lot of gain, if we could only ameliorate the immediate pain.

Could you comment on a longrun solution?

Mr. DONAHUE. I am flattered by your nomination as USTR but I turn it down.

Mr. GUARINI. It would be a hell of a good idea, Tom.

Mr. DONAHUE. I return the compliment, Mr. Guarini, by noting that you're saying precisely the things that Jean Monet was saying immediately after World War II in Europe, and he said we ought to deal with these problems. We ought to deal with our economies. We shouldn't have any more European wars, we ought to be one community and he was right.

And he convinced a lot of people he was right and they began the process of putting together what finally became the 1958 Treaty of Rome. They began out of that the process that created the European Parliament that negotiated all of these conditions and dealt with the harmonization of laws and statutes. And they created the economic and social councils and commissions that developed a social charter and began to try and find ways to develop common approaches on social issues.

And they now have said, in 1992 we're going to have a Common Market. That's taken them, if you date it only from the Treaty of Rome, 34 years; if you date it from the earlier, it is probably 44 years.

Mr. GUARINI. And that's great progress.

Mr. DONAHUE. It's fine by me. I would submit to you that we are at the Jean Monet stage; we're not at the treaty or Rome stage, even. But we're being told that in 6 months, Mrs. Hills can do all that; it's no problem. But she really can't do all of that so she's going to leave out drugs, immigration, all of the other issues, the national security issues.

Mr. GUARINI. I don't agree with a lot of that.

Mr. DONAHUE. They will all be left out and we will deal with those separately. First, we'll go to the heart of the issue, the economics, and give them this and you will be asked to approve it on a fast track, vote it up or down, yes or no.

The fast-track process that's proposed is not going to deal with drugs, with illegal aliens, with national security issues, with environmental issues or anything else that would trouble you greatly in improving the relationship between our two nations.

When you talk about phasing out such an agreement, spacing it out, I submit to you we're starting backwards. We ought to start with the North American Parliament and find a nice island to put it on and begin to develop a North American structure which could become a common market and a North American community some years from now.

I have no faith whatsoever, however, that the negotiation by Mrs. Hills will be able to consider, as well as you might, or as well as this Congress might, or as well, hopefully, as the people of the United States and Mexico might, figure out how many years that ought to take. Instead what we're going to do is to say, well, you figure it out, Mrs. Hills, and come back and tell us. And if Mrs. Hills says it is 5 years, now, vote that up or down. You don't like 5? Too bad.

It's 10, vote it up or down. It's 25, vote it up or down. I don't know what she's going to say or what the Mexicans are going to negotiate. But you know what the Mexicans want; they want the shortest period of integration, they want the fastest integration and they want labor mobility.

In terms of trade adjustment assistance for displaced American workers, you are talking to a burned-out victim on this subject. The American labor movement supported trade adjustment assistance from 1969 on, when we abandoned any hope of having free trade, when we began a campaign for fair trade and said, tell you what, give us burial insurance. Give us a little trade adjustment assistance so that people who are displaced by trade won't be out of employment. They can get training, relocation allowances, be tided over until they can find this substitute employment which is being so quickly created for them.

We have seen that trade adjustment assistance, cut, cut, and cut. You will see it zeroed out in the 1992 budget. There is no trade adjustment assistance so that our experience on this one is rather bad. I mean you have taken away our burial insurance, it's gone. And to propose to us now that maybe we could work something new out, well, I don't have much faith in it, Frank, I just don't.

Mr. GUARINI. Well, what I hear from you is that you are in accord with the concept of the drama but you have no confidence in the players.

Mr. DONAHUE. Well, I wouldn't even put it that way because I have the highest respect for Mrs. Hills. I think she is an enormously competent negotiator and enormously competent at her job. But I don't believe that two nations ought to be integrated by the act of 6 or 10 people in the executive branch and 6 or 10 Mexican executive branch people. I don't think that is how you integrate three nations.

Mr. GUARINI. How do you answer the assumption that many people often make that, yes, we will lose jobs to Mexico, but I would rather lose jobs to Mexico instead of losing industries to the Far East?

Mr. DONAHUE. I don't make that choice. I don't want to lose jobs. I don't care where they go.

Mr. GUARINI. You may lose industries anyway, then you will never get them back.

Mr. DONAHUE. Our members are just as unemployed whether that job goes to Mexico or it goes to Hong Kong.

What I reject in that argument is that the job has to go some place, because there is absolutely no proof of that. How do we know? No one has ever tried. No one has ever tried to keep the jobs here. Trico will tell you that the reason that it has a plant in the maquiladora is because it could not produce competitively in Buffalo.

Mr. GUARINI. So, how do we make America more competitive?

Mr. DONAHUE. We ask them to invest in new plant and equipment in the United States.

Mr. GUARINI. We took away the tax credits from this committee.

Mr. DONAHUE. Make it possible for them to build new plant and equipment here. We use what Mrs. Hills acknowledges is the 24-time advantage that we have. She said the other day that our American work force has a productivity rate 24 times higher than the Mexicans, so why don't we use it? Why don't we use it by investing in U.S. plant and equipment?

The peril of a free trade agreement or these negotiations is not that we will reduce the 4-percent tariffs on Mexican goods coming

into the United States or that we might get the Mexicans, hopefully, to reduce the 11-percent tariff on goods going into Mexico, that's not the peril. I mean the President can negotiate those tariffs any time he wants to.

The peril is we will create the maximum opportunity and the maximum acceptability for American investment and exploitation in Mexico. That will be the new rage. We all need new plant and equipment, put it in Mexico. There's not going to be a lot of new plant and equipment in the United States, and the jobs will be created there.

Mr. GUARINI. What incentives can we give America to expand their industry in the United States? We had tax credits and in the Tax Reform Act and we took away tax credits.

Mr. DONAHUE. I think first if we made it somehow, we tried to restore a sense of American value it would help. I think we have rushed to the global economy and you have sat, because I have, through countless meetings and been lectured about the global economy. The Europeans have been to those same lectures. They have reacted somewhat differently to those lectures, however. They have said, we have a community. Everybody gather around and we are going to keep out U.S. agricultural products; we are going to keep out Japanese cars; we're going to keep out a certain number of products because we have a value. We want to protect agriculture and the people who work in agriculture in our community. We want to stay self-sufficient in that field. We have a value of protecting high wages in the community, and therefore, we want to protect our manufacturing base.

They have done the things that nations ought to do to strengthen the nation. Now, I can be as much of a one-worlder as anyone and I will make that speech if you wish about the global economy and breaking down national borders. But the reality is that nations exist. And people who are of kindred minds gather together in nations. And they ought to try and advantage themselves. If they don't try to advantage themselves, they are doing something wrong.

Mr. GUARINI. Well, we are a leader in the world. We are the superpower that is left. And we are an economic power, besides being the military superpower. Would it not be our role to build bridges instead of walls?

Mr. DONAHUE. If we're going to build bridges, we ought to try building some of them here, I think. I am all for building bridges to nations and, you know, being friendly with everyone in the world, but I really believe very deeply, Mr. Guarini, that there is a nation; there is a reason why the United States is the United States and it has certain values. It has certain beliefs and certain philosophy that is somewhat different from a lot of other nations in the world. And we, somehow, don't value that. We're prepared to give it all away. Give away the jobs, change the situation.

Mr. GUARINI. Thank you, sir.

Mr. DONAHUE. Thank you.

Chairman GIBBONS. Mr. Jenkins.

Mr. JENKINS. Thank you, Mr. Chairman. I couldn't let this opportunity pass. My good friend, Mr. Pease, has attempted to draw some analogy about the people going to the Southern States in the

past because of low wages, and I think there may be some merit to that. But most of them that I meet from Ohio that have moved to Georgia and North Carolina and South Carolina talk more about the warm weather and the nice, kind and gentle people in the south and the football and the basketball, all of the things that make up a high quality of life, rather than some of the other things that he was talking about.

But on a more serious note, really, there is a difference and it is not a good analogy, I think for this reason: The people in North Carolina, or wherever, pay the same Social Security rate and the same income tax rate as they do in Ohio or wherever. They are subject to the same OSHA requirements in industry in the south or wherever. They are subjected and subject to the same pesticide requirements, to all of the other national laws, including minimum wage laws, that all of us are bound by.

So while there may be some merit to that argument and I think there is, it is totally different from making that comparison and making a comparison with Korea or other nation whose workers and industries are subject to different laws. I know that he did not intend to make that argument but I simply wanted to point that out.

Mr. PEASE. Would the gentleman yield?

Mr. JENKINS. I certainly do.

Mr. PEASE. I think the gentleman makes a very good point, first of all about the weather. Ohioans only say that we have good weather in July and August, not during the rest of the year. But in any event, on your broader point, we have seen a shift from the Northeast and the Midwest to the South in the last 20 years and it has been based on the fairly narrow grounds of lower wages, sometimes lower heating costs, and sometimes less stringent labor protection for workers in the South.

But the other factors which you mention are equal whether it is Georgia or North Carolina or Ohio or Pennsylvania or New England. And if you look at the shift which has occurred in the last 20 years—given the relatively few factors that are different between the North and the South—imagine what is going to happen with a Mexico Free Trade Agreement, where in addition to the differential that we have had before, magnified in the case of wage differentials, you have the differential on OSHA standards, social security taxes, property taxes, environmental standards and all the rest.

I just think there is a much greater potential for shifting production from not only Ohio but from Georgia and North Carolina and South Carolina to Mexico, than most people are willing to admit.

Thank you, Mr. Chairman.

Chairman GIBBONS. Now, that we have finished that piece of intersectional rivalry, I want to go back and see if I can gain something from your experience as a negotiator.

I do recognize Mr. Donahue, that you and the AFL–CIO have a long history of successful negotiations. I assume that when you go into a negotiation, you say, well, we have got 500 or 600 people in this work unit and here is what we would like to get out of the bargaining that we are entering into. And when we finish this bargaining, here at the table, we are going to have to submit it back to

our members. They are going to get to amend the bargaining agreement. Is that the way you go about bargaining?

Mr. DONAHUE. Pardon me, sir?

Chairman GIBBONS. You tell them entering into the bargaining arrangement, when we get through we are going to have to submit this agreement back to our 500 or 600 members and they will get to vote on it and they will get to change it around and keep the parts that they want and reject the rest, is that the way that you do your bargaining?

Mr. DONAHUE. As a practical matter, that is precisely the result, Mr. Gibbons. It is done somewhat differently though. What happens in the normal negotiating situation is that first the union would advertise to its members the fact that they are about to enter into negotiations and would solicit views of the members on what ought to be included in the negotiations.

Chairman GIBBONS. That's sort of what we're doing now.

Mr. DONAHUE. In the normal trade union negotiation those views are sought, kind of compiled into a set of proposals. A committee is elected by the membership, generally, to be the negotiating committee. They are not appointed by the president. They are not subject to his appointment, but a generally elected committee.

And they, then, go into negotiate. Very frequently they will bring back an agreement. First of all, I must note that in the average negotiation in the meetings which take place during a negotiation there is a fair ability to indicate to people where you think it's going and where it might wind up and to take temperatures as to what's acceptable or not. And then it comes back for a membership vote and the membership are quite frequently able to say, no, we don't like that agreement. We vote it down. It would be acceptable with the following modifications. It ought to have this emphasis or that emphasis and any president who long stays in office goes back and renegotiates that. So there is a process that goes with the negotiation of a labor contract which totally is absent in the negotiations here.

Chairman GIBBONS. It sounds to me that there are some differences. Mrs. Hills was not elected by anybody but it sounds to me exactly like the fast-track procedure as I understand the fast-track procedure. You submit it back to your union members, and they accept or reject the package that you have agreed to. And if they reject it then you go back and see if you can rebargain it. I would expect that that is the way that the fast-track procedure would work here. I think that what you do in your bargaining process, in your negotiating process is exactly what we envision doing in this negotiating process.

Mr. DONAHUE. Well, I would see some very significant differences, as I pointed out. We believe that the Congress, in this analogy, should be the labor negotiators.

Chairman GIBBONS. I understand.

Well, thank you, sir. I appreciate your coming and imparting us with information.

Mr. DONAHUE. Thank you, Mr. Chairman.

Chairman GIBBONS. Let's go to Anchor Glass, Mr. Clifford Jones and to Libbey Glass, Mr. Meier. Then after this panel we are going

to take a break. And I will announce how long a break we are going to take when I see how long this panel lasts.

First, I would like to welcome all of you here and let me just start first with Mr. Jones.

STATEMENT OF CLIFFORD L. JONES, CHIEF OPERATING OFFICER, ANCHOR GLASS CONTAINER CO., TAMPA, FL; ACCOMPANIED BY IRWIN P. ALTSCHULER, COUNSEL

Mr. JONES. Mr. Chairman, it's good to be here. I don't know what happened to all of our distinguished Congressmen, I hope they will be back to hear what I have to say.

Chairman GIBBONS. Let me point out that this is a voluntary arrangement up here and I can't order them to do anything.

Mr. JONES. It is lunch time.

Chairman GIBBONS. Well, OK, we have Mr. McGrath and me.

Mr. JONES. We have got the best part.

Chairman GIBBONS. Thank you.

Mr. JONES. This is quite an interesting process, Mr. Chairman, and I have a prepared statement here that——

Chairman GIBBONS. Well, you may either read it if you want to or put it in the record, and just summarize it. We will put it in the record.

Mr. JONES. I couldn't help, sitting here and listening to the testimony that has been made prior to this time. I think that I, No. 1, and our company have some experience that I think could be beneficial to this committee and to all the people who are interested in fair trade.

Chairman GIBBONS. Good.

Mr. JONES. No. 1, my name is Clifford Jones and I am the president of Anchor Glass Container Co. and we employ some 7,000 employees and, in fact, in looking over your committee, we have plants in all but three of the States that are represented on your committee.

We're now presently owned by a Mexican company, Vitro S.A. of Monterrey and so over the last 2-year period I have had quite an insight into Mexico, into their economy, into their business structure and how they do things.

But first, before I get into that I guess I would like to talk as a citizen and also the things that I have heard. No. 1, I'm not for giving more aid to countries to develop them. That's not the way you do it. You don't do it by giving it. You have to teach them. You have to invest in their countries and you have to bring them along. You don't do it by giving money. So I will have to say that I disagree with that approach.

Chairman GIBBONS. I do, too.

Mr. JONES. Thank you.

Second, I think I have heard a tremendous indictment of our system here. And the indictment is that we, as a manufacturing community here in the United States, cannot compete against Mexico or any segments in the rest of the world. I say that is hogwash. And if we continue to go on that basis and be afraid of dealing with people because of the possibility of lost jobs in our manufacturing sector we will never invest another dime in our corpora-

tions, and that is totally false. I guess I can give you a success story here because we have been through this.

If you will let me indulge a little bit, I will tell you a little story about a privately held company on the west coast by the name of Latchford Glass, and they have been in the business over 70 years, and they are a family held corporation. They had two plants, and some 1,000 employees, or right in that category and also Anchor Glass which is a combination of some seven or eight glass companies that have either gone broke or have been bought out or merged over a 7 year period with the thinning out of our industry.

We both, 2 years ago, were on the brink of chapter 11; very difficult times in our industry, not having the money to invest and do the things that are necessary. And we were able to put together a consortium, a buy-out, so to speak, of both of these companies by Vitro, a Mexican corporation.

I have heard a lot about all the businesses moving to Mexico and I can tell you that Vitro put up $325 million, invested in companies, here in the United States, and they could have very well, easily, could have built plants along the borders for much less money than $325 million, and shipped in from those locations or shipped in from facilities that they currently have.

They, I think, are taking a longer view than what some of the testimony I have heard today of we, as Americans, and our ingenuity to be able to compete in a world market. And we are certainly in a world market, whether we want to open our eyes to that fact or not, we certainly are. In fact, I think back and yes, we have had a lot of imports that have come into the United States, but I wonder what the quality of our automobiles would be today and how satisfied we would be with them if we had not had external competition that showed us what quality was really about and what could be done.

So, unfortunately whether we like it or not we are certainly a world economy and more dependent on other countries than ever before. So I think we need to look at that and say, how can we benefit? Vitro has looked at it, a Mexican corporation, one of the largest corporations in Mexico, one of the three largest. I think with the ownership of our company, they are probably the largest privately held corporation in Mexico.

They have made a tremendous investment in the United States because they feel that we can do the things that are necessary to be successful. And I am very pleased to be here today to tell you that in 1989 the combined corporations between Latchford and Anchor, independently, lost $45 million and this year we made $20 million. And part of that making was not just the investment, by deleveraging our companies, but it was the things that were brought to us by our Mexican partner. No. 1, one of the things that they brought to us was technology, the ability to be able to make machines of the finest nature in the world. And they happen to be a technology developed by a company, here in the United States, Owens-Illinois which happens to own Libbey. They have the finest glass technology in the world.

And Vitro has the ability with a fine machine shop in order to make that type of machine that is what we need to be competitive in our own industry. We have started that process and they are

building machines and we are installing them in our operations and being very, very successful. That has been part of the turnaround that has helped us this year.

But more than that, in fact, I was asked last night at a meeting with some bankers who are looking to loan us some money. They said, what was the biggest factor that had taken place with your corporation this year? What is the big change? How have you been able to turn this company around?

Of course, I like to say, well, it is myself, because I am the new CEO but that is not the equation. It has been the people and that has been generated by the people from Mexico. People in Mexico believe, and especially Vitro, in people and doing the job and doing it correctly and right. And also believe in the environmental area of the work place. I can say as their chief operating officer they have given me free rein to implement programs that have been very, very successful for our company that are basically many social programs for improvement of the plants, themselves, clean-up, safety. We have improved our safety area and the workmens' compensation by lost-time accidents by over 50 percent. That's unheard of in our industry of such a change and it has been brought about by the philosophy that we have been able to learn from how it's done in Mexico.

They have had plants that have gone 2 years with plants that have some 1,500 employees who have never had a time-lost accident. We have set records now and have had some seven plants that have gone a 6-month period. Again, tremendous advantage, tremendous advantages for labor. Also cleaning up your plants, working right.

I have heard a lot of things said about Mexico and, yes, there are places of that nature, but in the business community and things that are developing companies they do things right, and in many cases, even better than we do.

So I think this partnership has been very good. I think it has been a tremendous asset to us. It literally saved 7,000 jobs of two companies that were very close to extinction and now have put us back on the track where we are profitable again and are investing in the business. Vitro feels so strong about it, the investment that they have made, that they are taking no profits back into Mexico. They are permitting us to plow all of that money back into revisions, updates, modernization of our facilities.

And again, when I look down the different States that are represented by your committee and we are spending anywhere at each of those plants in the next 5-year period, we are spending some $435 million. The biggest expenditure is going to be in a plant in Georgia where we are going to spend $30 million updating facilities.

Chairman GIBBONS. Where is this?

Mr. JONES. Warner Robbins, Georgia and we will be spending some $30 million in that area to upgrade that facility to better compete. I think that as a nation, I think as a business community we have to say, look, we are here and we are going to be here long-term and we are going to have to compete. We are going to have to do the thing and use the technologies necessary to be successful.

I have not heard that today. I have not heard that part of it about American industry. I know we are inventive. I know we can succeed and I know that we can make it possible. That is why I am here and why I am talking today.

Chairman GIBBONS. That's a good message.

Mr. Meier. Mr. Jones.

Mr. JONES. He is very unhappy because I tore up my speech.

Chairman GIBBONS. Well, we're going to put it in the record anyway.

Mr. JONES. He's only an attorney and you said I could do it, Mr. Chairman, so I mean it is OK. But he has a couple of points he wants me to make.

Chairman GIBBONS. Certainly.

Mr. JONES. He is saying about duty because he knows what is coming up. He says, do we really need duties?

I guess some glass materials, it is interesting. You have to know that I have looked at the cost structure of our parent operation in Mexico very, very closely and obviously they have looked at our cost structure. I am a businessman and we have to generate profits to generate the money to expand our business to develop the technology that is necessary to just survive. And if I thought that I could ship in from Mexico, OK, and make a profit which I could use to in turn better my plants in the United States, I would be doing it.

But, in fact, what's happened, in fact, one location in California we have taken over business that was being shipped in from Mexico and we are now producing it in our California plant because it is a much closer proximity to our shipping distance and it is a better profit for us locally than it is for Mexico.

Again, some of the fallacy that we hear how cheap things are and how well they can produce and ship into this country, we don't have to take a back seat. I will tell you that we, at our manufacturing plants, don't take a back seat to any of the plants in Vitro.

Now, lots of things have to do with it. Again, it is freight to that existing plants from Mexico, it is difficult to reach certain locations in the United States and very, very, very costly. But again, with $350 million, you could build about seven glass plants that could quite adequately supply Texas, Oklahoma, California, and all of those areas from the border. And in essence, with where our glass business is, possibly generate more profits. That was not their thrust.

So I think what we have here is the beginning of what I see as a partnership in many, many areas and we are certainly working it from that standpoint and I feel that it is very, very important that long-term this is the direction we go. I see the free-trade act as something that will position us and have us working together very, very close to make the whole continent a shipping area, a trading area that we can be very pleased and happy with which will ultimately benefit us, as consumers, all over the entire area.

I go down into Mexico and they don't want a Mercedes. I mean they want a Chevy, they want a Cadillac, they want American products. They want a Budweiser. I mean they want things that are manufactured in this country, not that are manufactured in Japan, or any place else. So I see this as a tremendous avenue also.

Do we need barriers of 30, or 35, or 40 percent of my product? Right now, we don't have that. Mexican glass containers can be shipped into this country with no charge and it is little but I think it is less than 1 or 2 percent of the entire industry. In fact, I look at the entire glass industry in Mexico from the glass standpoint and glass containers and if we were to convert and they were suddenly to make containers for the United States, in every glass plant in Mexico, they would amount to about 10 percent of the output of what we use per year.

So, again, on that basis, it is very, very, very small and I don't see the need for protection from that standpoint. If we are relying on trade barriers and, again, I will have to say, for me it is very difficult to see how getting 30 percent and putting it in the coffers of the Government benefits an industry long term. That industry is going to get eaten alive by other companies shipping in from other places who have found the way to develop the technology to compete. If we rely on that, I see that as no good. If that money were to be used to protect an industry for a period while it was developing and putting in the equipment in order to proceed, I would say that is a worthwhile benefit. I can't see it just to put it in the coffers of the Government and not used for training and upgrading of the facilities.

I guess, Mr. Chairman, I will get off my box and I appreciate the time and the opportunity to be here.

Chairman GIBBONS. I appreciate your coming here. It is good to get the story of Anchor and Vitro.

[The prepared statement follows:]

TESTIMONY OF CLIFFORD L. JONES

Good morning. I am Clifford L. Jones, Chief Operating Officer of Anchor Glass Container Company of Tampa, Florida. Our company produces glass containers for foods and beverages in 19 plants throughout the United States. Our annual sales are $1.2 billion, or a little more than one-fourth of the U.S. industry's output. At this time, I am also Chairman of our industry's trade association, The Glass Packaging Institute. I am testifying today solely in my capacity as Chief Operating Officer of Anchor.

Anchor employs about 7,000 U.S. workers in our 19 factories. Since 1989, we have been owned by a Mexican company, Vitro, S.A. of Monterrey, Mexico.

I believe that I can tell the Committee from experience -- an experience you are familiar with, Mr. Chairman -- that American business people and Mexican business people have much to offer each other that will enhance business prospects *for* each other -- by stimulating growth in exports to each other's country; by job creation in both countries; and by collaborative efforts and opportunities of such a wide variety that we probably can't even envision them all today. In my view, a Free Trade Agreement will enlarge the frame of reference of business decision-makers in both countries and orient all of us toward looking to each other to help solve problems and increase competitiveness. The resulting synergy is bound to stimulate economic growth, in part by making sure that our hemisphere is better positioned to compete against other trading blocks around the world.

In 1989, I was CEO of Latchford Glass of Los Angeles, California, a 72 year old glass packaging producer. Over the years, I had seen our industry's competitive position erode, largely because of increased competition from other packaging materials -- plastics, aluminum and others. Having experienced difficult financial times, the industry had undergone a period of consolidation, with the weaker companies disappearing. Latchford Glass, a privately owned company, and Anchor Glass, a public company, faced a difficult, highly uncertain future. Clearly, drastic measures were needed if the two companies were to regain competitiveness and survive.

Fortunately, difficult times can lead to creative solutions, and that was the case with Latchford and Anchor. Vitro in Mexico had exactly what these two companies needed to regain competitiveness -- 80 years of experience as a glass container manufacturer, and the know-how and technology to produce glass container manufacturing machines needed for immediate modernization. Perhaps as important as anything, Vitro's acquisition of Latchford and Anchor infused those companies with new energy and direction. I am pleased to report that for 1990, Anchor realized a profit of $20 million, reversing what had been a $45 million loss in 1989.

For Anchor, a Free Trade Agreement should mean assurance that the technology which Anchor needs from Vitro, in the form of sophisticated capital goods, will continue to be available. Currently, this machinery enters the United States from Mexico duty-free under the Generalized System of Preferences Program. Anchor trusts that products which are currently GSP-eligible would be accorded continuing duty-free status under a Free Trade Agreement. This will allow our modernization program, and resurgence, to go forward. Hopefully, an Agreement will also mean new market opportunities and the continuing financial health of our parent corporation, Vitro. In addition to being a

producer of glass containers, other Vitro companies produce other glass products, as well, including flat glass for architectural and automotive purposes, fiber glass, and household glassware. Relative to the size of the U.S. market for these and other types of glass products, and relative to the size of the U.S. industries producing them, total exports to the United States are quite small. And this is true regardless of whether the U.S. import duties are small or nonexistent, as is the case of certain flat glass products, or extremely high, as in the case of certain household glassware.

While the elimination of U.S. import duties under a Free Trade Agreement would certainly be helpful to Vitro operating companies, experience shows that there is no basis for fearing that a flood of imports would enter the U.S market. Actually, the size of the Mexican glass producing companies, and the many competitive disadvantages they face as exporters to the United States, assure that this would not be the case. For example, even with a Free Trade Agreement, and even with Mexico's relative proximity to the U.S. market, the distance from potential U.S. customers will continue to be a barrier to Mexican exports of glass products. Freight costs involved in shipping glass products are extremely high, and actually amount to a very significant percentage of the cost of the glass itself. In the case of glass containers, for example, it is simply essential for suppliers to serve the vast majority of U.S. customers' needs from nearby plants. Following Vitro's acquisition of Latchford and Anchor, it became more feasible for Vitro to serve some of its customers from Anchor plants in the United States than from Vitro's plants in Mexico. Freight costs for products like these simply outweigh other advantages that might exist for producers in Mexico.

Of course, there are many distinct glass products industries, and my career has been spent in the glass container industry. As a U.S. businessman involved in *a* glass industry, I would like to address the myth that U.S. glass products producers need tariff protection to survive and compete against imports from Mexico. During the early 1980's, the glass container industry tried to build a wall of tariff protection by petitioning to remove imported glass containers from duty-free eligibility under the U.S. Generalized System of Preferences. The target of that petition was Mexico. As with many glass product exports from Mexico, Mexican glass containers had never achieved a significant share of the U.S. market, and their presence was confined to limited niches which U.S. producers were not willing or able to serve effectively. The U.S. industry petition failed, duty-free treatment under the GSP program for Mexican containers continued, and despite the duty-free treatment, glass containers from Mexico never achieved more than about one percent of the U.S. market. Today, most glass containers enter the United States unconditionally duty free, and Mexico's share of the U.S. market still remains minimal. My instincts and experience tell me that under a Free Trade Agreement, much the same situation would be true for a variety of glass and other products from Mexico. Hopefully, a Free Trade Agreement will *not* continue U.S. tariff barriers which, in my experience, do not serve to provide useful protection, but often work to direct the efforts of U.S. industries away from steps which are truly needed to enhance their competitiveness.

Mr. Chairman, I believe that a Free Trade Agreement with Mexico will stimulate economic growth and employment on both sides of the border. Increasing integration of the two economies is already a reality. A comprehensive FTA would go far to create a situation where Mexican and American business interests look to each other as part of the solution to the problem of global competitiveness, and not as part of the problem itself. I appreciate the opportunity to testify this morning.

Chairman GIBBONS. Mr. Meier.

STATEMENT OF JOHN F. MEIER, VICE PRESIDENT AND GENERAL MANAGER, LIBBEY GLASS, INC., TOLEDO, OH, ACCOMPANIED BY TERENCE P. STEWART, COUNSEL

Mr. MEIER. Thank you, Mr. Chairman. On behalf of Libbey Glass I would like to thank you for the opportunity to present our views. That there be no confusion between the position of the Mexican producer and its United States "container" subsidiaries, who spoke before me, and our position, in the context of our dialog we will distinguish between tableware, our part of the glass industry [HTS 7013], versus the glass container sector [HTS 7010]. A careful understanding of the differences is fundamental to understanding our respective positions on an FTA. In the tableware business we make relatively high value items such as drinking glasses, ashtrays, canisters, and bowls and plates, whereas they make relatively low value container items such as baby-food jars and beer bottles. Hence, not only was the preceding testimony on behalf of Mexican-owned facilities, it concerned entirely different products facing, if only by reason of freight cost issues, very different and very limited, import competition. We will touch on this further on in the testimony.

As you know, we have prepared a 10-page submission and I will just highlight from that.

Chairman GIBBONS. We will put the entire statement in the record, without objection.

Mr. MEIER. Fine. We have produced products in the United States for 173 consecutive years. We are a unit of Owens-Illinois, one of the largest glass companies in the world, the largest glass company, in total, in the United States of America. Libbey Glass produces product for the retail food service and premium industries in the United States. The premium business would include for instance the oil companies, the fast food companies buying glassware for distribution or sale as a means of promotion.

The issue at hand is strictly what has happened to our industry. The fact of the matter is—and our 10-page submission would show this—the glassware industry, the tableware aspect—and that's all my comments relate to—has been absolutely devastated in the last 10 years. We have lost 17,000 jobs and we have seen communities such as Clarksburg, WV; Muskogee, OK; Millville, NJ; and other such communities, small communities, devastated with the closings not only of factories, but entire companies.

I would like to submit that it is not because of the technology that we have lost this market position. The very fact of the issue is, and it is documented in U.S. Government statistics, Department of Commerce, that in the glassware industry the average wage and fringe in 1987, when the last comparable statistics in glass industry-to-glass industry were available, we were at $15-and-change per-hour in the United States, while wages and fringes in Mexico were $1.39 an hour.

Now, when one considers the fact that we are as automated and as sophisticated as anyone in the world, yet labor represents 50 percent of our total cost which is documented in our 300-page sub-

mission to the ITC in November, obviously it does not take a Philadelphia lawyer to figure out who has the upper hand in a major cost component. This is a critical issue.

The fact of the matter is the upper range of glassware duties has been reduced in the United States since the Tokyo round from 50 percent to 38 percent and there is a lot of dialog about the duty structure that the tableware industry faces. We have a schedule of duties. That schedule of duties now goes from 6 to 38 percent. The average duty entering into America, based on the mix of tableware that comes into this country, is 13 percent on a CIF basis. The average duty coming into this country from Mexico is 21 percent. The duty that we pay going into Mexico is 20 percent. I would say that is essentially apples and apples.

The fact of the matter is that the largest producer in the United States of America, Libbey Glass, sold less than 400,000 dollars' worth of product in Mexico last year, while Vitro Crisa, the very formidable Mexican producer—we compliment them on their technology; Libbey Glass licenses technology from Crisa—based on their own publications they have a $60 million business here in total. But even with import duties of approximately 21 percent, they are a formidable competitor and we cannot ignore that fact.

I would like to just point out that our industry also has another unique situation. We are one of the few industries that has been designated import-sensitive by the U.S. Government by law and in past reviews and past proceedings. I am talking about the GSP proceedings in response to Mexican petitions, the Colombian GSP proceedings, and other third world GSP proceedings which consistently result in denial of GSP glassware. And, in fact, it has been a part of our dialog within the Uruguay round proceedings that this industry is extemely import sensitive.

With the import penetration level of 46 percent—46 percent of all the glassware in America, all the drinking glasses, ashtrays, canisters are imported—the fact of the matter is that with the alleged high duties that we have, in the last 10 years that import market share of 46 percent used to be 23 percent in 1979 before the Tokyo round reductions. So our submission is that the current duty structure certainly is not a deterrent to all our trading partners around the world when their penetration has gone from 23 to 46 percent.

By comparison, based on statistics we have looked at, the steel industry has an import penetration level of 17.9 percent; textiles are at 27.5 percent; and motor vehicles are at 26.5 percent. I submit to you what kind of a dialog would you be having in this room if any of these sectors had a 46-percent penetration level?

All I am asking you to do is to understand what has occurred to our industry. The question obviously is—how could it happen? What did you do, as an industry? I can't speak for my domestic competition. Libbey Glass has shut no plants down. We have invested in technology. We run three factories. We ran three factories in the 1970's, we ran three factories in the 1980's and we want to run three factories in the 1990's. We employ 3,000 people.

The problem for the others was not an absence of appropriate technologies or marketing know-how. I would submit that there are some very, very credible producers, domestically in the United

States, who are very much alive in the glass container business who took a crack at it in tableware and went by the wayside. I am talking about Wheaton Glass in Millville, NJ, a very credible producer in aspects of the glass container industry; well-known for his technical prowess, who opened a facility in 1980 and closed it in 1985 and lost $40 million. It wasn't because he was not technically competent.

The one major thing we would ask for consideration, we strongly oppose glassware inclusion in a free trade agreement in the damage it could do to our industry. It is an industry that Carla Hills, herself, in early February in testimony before the Senate, acknowledged will be one of the few losers in the U.S.A. with the passing of the free trade agreement. The elimination of duties on household glassware under the FTA would most likely lead to significant increases on United States imports from Mexico. The ITC study, which we document in our submission, includes the same findings. We are extremely vulnerable.

In closing, I would like to touch on one aspect that we would sort of hitchhike on some of the discussion that has taken place this morning. Some of the learned gentlemen from the AFL-CIO, who spoke here before me, suggested we look at how the EEC has moved on some of these same projects, some of these same trade-opening subjects, and over what length of time it took them to evolve to what they became. And they are still, as we would all acknowledge, still working on it very hard. The real question is, will even "1992" really be 1992?

In our research we have been able to uncover—and we touch on it in our submission—that article 24 of the GATT only requires that a free trade agreement or a customs union cover "substantially all" trade in the area or union. That is, 100 percent coverage under an FTA is not required.

Our documentation lists eight examples where the EEC in its own wisdom in dealing with countries such as Portugal, such as Spain, such as Turkey, such as Malta, in the periods of the 1970's and 1980's did find a way to structure sector exclusions into the arrangements with those countries, yet, did not receive disapproval or retribution from other countries or from the GATT organization. That is, they found a way to, when it was especially sensitive to their own requirements, to find exclusions and still have, in essence, the nature of a free trade agreement.

We only offer up for consideration the example of the course they took and ask and wonder why such a course could not also be pursued in the United States-Mexico context.

Such an approach, quite honestly from what we have read, is also consistent with the Mexican position on certain sectors of their own economy—for example, petrochemicals, a major issue that is not necessarily on the table.

The USTR and the ITC have identified a few sectors, including glassware, which will be adversely affected by an FTA with Mexico. The means to look out for the interests of those sectors exist. I would invite examination of some of our concepts in the further deliberations in these entire proceedings.

Concerning the previous speaker's testimony in support of the Mexican producer's request for United States tariff elemention for

glass containers, I would like to point out in the tableware business another major difference from the glass container business. It concerns freight cost as a percent of value, and how that percentage limits low-value container imports but not tableware imports. A typical truckload of my product, assorted, shipping to one of our distributors, at factory sales value approaches $35,000 to $40,000 in the restaurant industry. The freight on a typical truck is somewhere around $2,000. You are talking 5 percent of the goods. That is not a factor. Freight however, is a major factor in the glass container industry when you ship a truckload of baby food jars. The cost of the freight can virtually be half if not more than the cost of the truck of those lower-value articles. The reason that glass container companies need to locate very closely to some of their major customers is the freight factor alone. Duties are not the deterrent, freight more than supplies the deterrent in that industry. Freight is not a deterrent in the glass tableware industry.

Tonight when you go home go to your favorite department store and pick whichever one you like. You will go through a veritable geography lesson and you will look hard, and you will not find much domestic U.S.A. glassware. You will find products from Romania, from Yugoslavia, from Mexico, from Indonesia, from Brazil, from France, from Italy; hopefully you will find some from the U.S.A. This product is not freight sensitive. The fact of the matter is our duties were reduced during the Tokyo round to the current level that they are and imports have gone from 23 to 46 percent.

Mexico, itself, in volume approaches 15 to 17 percent of the total volume of imports coming into this country. Crisa is a formidable producer, a huge producer. Vitro, their parent, has in excess of $1 billion. Their after tax profits, I believe, approach somewhere around $150 million. They have the financial wherewithal to double, to triple their capacity in the course of 24 to 36 months.

The effect of that would be devastating and the first factories of ours that will feel it are Shreveport, LA, and the city of Industry, CA. Our mother factory is in Toledo, OH, and it has been there for 173 years. We would like to keep it there for more than 10 to 15 more years. And we will do everything possible, I can assure you, technologically; we will not avoid the opportunity to take the best technical means to achieve our objectives.

We do compete. We also compete with other industries in the United States for skilled labor. Toledo, OH, employs the second largest amount of autoworkers of any city in America, next to Detroit. If I need a skilled electrician, if I need a skilled mold-maker, if I need a skilled mechanic, and if I am not offering comparable wages, I am not going to get him. He is going to be working at the hydromatic transmission plant, the Jeep factory, the Chrysler assembly plant, the Champion Spark Plugs, et cetera, et cetera. We do not operate in a vacuum, sir. The labor situation in total must be considered.

We are cognizant of the challenge and the effects could be devastating.

Thank you, very much.

[The prepared statement follows:]

BEFORE THE

SUBCOMMITTEE ON TRADE
COMMITTEE ON WAYS AND MEANS
UNITED STATES HOUSE OF REPRESENTATIVES

HEARINGS ON THE PROPOSED NEGOTIATION
OF A FREE TRADE AGREEMENT WITH MEXICO
FEBRUARY 21, 1991

STATEMENT ON BEHALF OF LIBBEY GLASS, INC.
A UNIT OF OWENS-ILLINOIS, INC.

REQUESTING EXCLUSION FROM DUTY REDUCTION FOR GLASSWARE IMPORTED
UNDER HTS HEADING 7013

Whatever the overall merits of a bilateral or trilateral trade agreement with Mexico, it has been recognized that certain U.S. industry sectors will be significantly harmed through a Free Trade Agreement (FTA) with Mexico. However, there is nothing inherent in the process of negotiating a Free Trade agreement that requires certain particularly vulnerable industries to be sacrificied. Mexico has already signaled the need to deal with selected industries in a non-traditional manner. So too, the United States has the means to eliminate or significantly limit the negative impacts for selected industries that would accompany bilateral duty elimination at the same time it obtains the benefits of an FTA.

I. IF THE FTA GOES FORWARD, THERE SHOULD BE AN EXCLUSION FOR GLASSWARE UNDER HTS ITEM 7013

The U.S. industry producing glassware like and directly competitive with imports from Mexico under Heading 7013 of the Harmonized Tariff Schedules of the United States (HTS) is among those which will be seriously harmed by an FTA with Mexico. This is a fact recognized by our negotiators and confirmed by the U.S. International Trade Commission in its recent study. Libbey Glass, Inc., a Unit of Owens-Illinois, Inc., is one of the nation's largest remaining producers of glassware articles like and directly competitive with those included under the various subparts of heading 7013 of the Harmonized Tariff Schedules.

Libbey Glass requests that provision be made to assure that U.S. duties are not eliminated on glassware articles imported from Mexico under HTS heading 7013.

Libbey has produced glassware in the United States since 1818, and has plants in Toledo, Ohio, Shreveport, Louisiana, and City of Industry (Walnut), California. All of Libbey's plants face intense competition from glassware imports from Mexico, with the most intense competition confronted by its plants at Shreveport and City of Industry, nearest the U.S.-Mexico boarder.

Other major U.S. producers of competing glassware include Anchor Hocking Company (Newell Corporation), Indiana Glass (Lancaster Colony), and Corning Glass Works. There are dozens of smaller domestic manufacturers of competing merchandise. There are also scores of enterprises engaged in the decoration of these glassware articles (e.g., cutting, engraving, etching, frosting, enameling).

A. Condition of the U.S. Glassware Industry

1. Past recognition of the industry's import sensitivity

The U.S. industry producing glassware like and directly competitive with glassware imported from Mexico under HTS heading 7013 has consistently been recognized as particularly import sensitive. Relatively high U.S. tariff levels on glassware, 30% and 38% for articles valued up to $3 (see HTS item numbers 7013.29.10, .29.20, .39.20, .99.40, .99.50), in itself highlights past administrations' recognition, in multilateral tariff-reduction negotiations, of the glassware indus ry's import sensitivity.

Additionally, "import-sensitive semimanufactured and manufactured glass products" is one of only six product classifications excluded from eligibility under the U.S. Generalized System of Preferences (GSP) statute (Section 501(c)(1)(F) of the Trade Act of 1974 (19 U.S.C. 2462(c)(1)(F)), reflecting recognition of the industry's import sensitivity even in the early 1970s (prior to the Tokyo Round reductions). The industry's present import sensitivity has been highlighted by the denial of GSP petitions covering HTS 7013 glassware filed in the past two years by the emerging producers in, or the governments of, Mexico, Turkey, Brazil, Colombia and Poland in the 1989 GSP review, the special 1989-90 Andean GSP review, and/or the 1990 GSP review.

2. Injury to the U.S. Glassware Industry: Intense Import Competition, Market Penetration, Plant Closings and Lost Jobs

The table below shows that, since the conclusion of the last round of multilateral tariff reductions in 1979 (the Tokyo Round), glassware imports from a broadening range of developed, developing, newly industrialized and Eastern Bloc countries have increased significantly (imports are shown on an F.A.S.-value basis (i.e., exclusive of freight, insurance and duty)). The principal developing and East Bloc country producers are profitable, world-class competitors which, like Vitro Crisa (the major Mexican glassware producer), employ state-of-the-art technology and equipment, and are often among the largest producers in the world.

U.S. IMPORTS OF GLASSWARE 1979 - 1990

(FAS Value 000s $)

	1979	1984	1985	1986	1987	1988	1989	1990	% CNG 1979 - 1990
Eastern Bloc									
ROMANIA	$12,383	$20,098	$13,088	$14,180	$12,310	$14,307	$7,086	$5,113	-58.6%
YUGOSLAVIA	$5,134	$10,649	$11,947	$15,477	$18,484	$18,939	$26,962	$24,942	385.9%
CZECHOSLOVKIA	$4,080	$3,501	$4,018	$4,449	$5,280	$5,132	$4,302	$4,211	3.2%
E. GERMANY	$2,201	$3,776	$3,427	$3,342	$4,641	$4,577	$5,016	$3,611	64.0%
POLAND	$4,071	$4,573	$4,469	$4,074	$8,393	$9,135	$11,467	$15,873	289.9%
HUNGARY	$1,110	$1,823	$1,780	$2,179	$3,446	$3,315	$3,709	$3,593	223.8%
BULGARIA	$388	$66	$78	$103	$29	$23	$117	$218	-41.3%
U.S.S.R.	$1	$122	$207	$301	$380	$662	$746	$679	114693.6%
Subtotal:	$29,327	$44,408	$38,866	$44,106	$52,963	$56,091	$59,395	$58,238	98.6%
E.E.C.									
DENMARK	$134	$622	$514	$414	$865	$851	$854	$440	255.5%
U. KINGDOM	$5,422	$28,251	$18,328	$17,988	$13,294	$11,030	$8,680	$9,064	67.2%
IRELAND	$21,494	$28,691	$34,736	$44,176	$41,180	$73,398	$73,062	$55,109	156.4%
NETHERLANDS	$912	$3,903	$4,115	$1,867	$2,099	$1,342	$1,575	$1,176	28.9%
BELG/LUX	$2,591	$5,803	$6,049	$6,976	$7,096	$4,167	$3,629	$5,650	118.0%
FRANCE	$51,351	$83,377	$86,001	$87,352	$108,576	$104,619	$112,621	$120,374	134.4%
F.R. GERMANY	$30,548	$52,903	$58,719	$72,029	$64,883	$67,043	$68,856	$84,772	177.5%
SPAIN	$265	$1,836	$1,882	$2,391	$2,875	$4,401	$6,071	$5,027	1795.9%
PORTGAL	$2,737	$3,547	$4,005	$5,184	$6,628	$5,122	$6,649	$7,903	188.8%
ITALY	$12,826	$19,970	$22,284	$29,526	$23,766	$23,152	$27,598	$32,413	152.7%
GREECE	$7	$9	$43	$46	$140	$101	$151	$188	2773.2%
Subtotal:	$128,275	$230,911	$236,776	$280,028	$272,361	$295,227	$309,533	$322,118	151.1%
TRIN. & TOBAGO (CBI)					$70	$612	$451	$73	
ISRAEL (U.S.-Israel)	$141	$125	$859	$409	$1,345	$860	$455	$399	183.2%
CANADA	$404	$3,014	$1,980	$1,371	$2,438	$2,407	$3,593	$3,628	797.5%
MEXICO	$8,186	$11,199	$13,175	$11,611	$15,402	$14,778	$21,174	$18,771	129.3%
TURKEY	$888	$2,209	$2,383	$4,068	$8,281	$5,740	$7,708	$8,942	884.4%
INDONESIA		$2	$45	$1,001	$873	$838	$2,148	$3,261	
TAIWAN	$6,106	$21,048	$21,588	$24,852	$26,584	$28,709	$27,888	$28,951	374.2%
BRAZIL	$6	$1,886	$2,943	$2,133	$2,621	$2,087	$1,817	$1,880	29840.8%
JAPAN	$6,993	$19,502	$20,741	$24,289	$23,842	$24,338	$24,976	$23,139	231.4%
Subtotal:	$22,525	$58,984	$63,374	$69,534	$79,518	$80,469	$90,205	$87,053	286.5%
TOTAL ABOVE COUNTRIES:	$180,128	$334,283	$338,146	$393,669	$404,830	$431,787	$459,133	$467,405	159.5%
TOTAL OTHER COUNTRIES:	$25,848	$30,178	$31,474	$36,677	$38,769	$42,058	$50,536	$51,199	98.1%
TOTAL ALL COUNTRIES:	$205,976	$364,461	$370,620	$430,346	$444,599	$473,845	$509,669	$518,604	151.8%

Source: U.S. Department of Commerce, Bureau of Census, Import Statistics.

At the same time that glassware imports have been increasing, U.S. producers shipments have declined and U.S. consumption has flattened. See table following.

Glassware Classifiable Under HTS 7013 and TSUS 546: Apparent Consumption, Imports, and Imports as a Percentage of Apparent Consumption In Actual Dollars

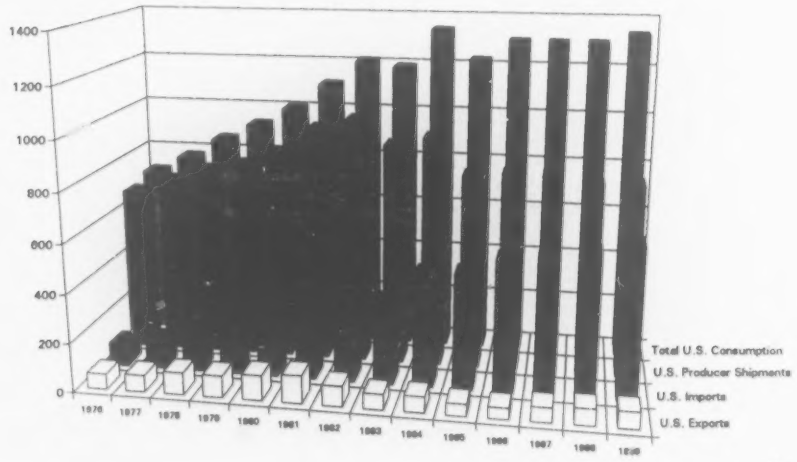
(Millions of U.S. Dollars)

Year	Domestic Producers' Shipments	Interplant Transfers	Net Domestic Producers' Shipments	Exports	Imports	Total U.S. Consumption	Imports % of Total U.S. Consumption
1976	$730	$55	$675	$64	$94	$705	13.3%
1977	$785	$55	$729	$69	$113	$773	14.6%
1978	$865	$86	$779	$90	$168	$857	19.6%
1979	$912	$106	$806	$89	$210	$927	22.6%
1980	$1,030	$166	$864	$103	$240	$1,001	24.0%
1981	$1,150	$180	$970	$114	$252	$1,108	22.7%
1982	$1,152	$143	$1,009	$83	$282	$1,209	23.4%
1983	$1,183	$272	$912	$63	$339	$1,188	28.5%
1984	$1,307	$361	$946	$65	$463	$1,343	34.5%
1985	$1,215	$415	$800	$49	$472	$1,223	38.6%
1986	$1,278	$465	$813	$46	$537	$1,304	41.2%
1987	$1,264	$453	$811	$59	$550	$1,301	42.3%
1988	$1,362	$575	$787	$67	$581	$1,302	44.7%
1989	$1,362	$575	$787	$68	$618	$1,337	46.2%

Sources:

Domestic shipments, interplant transfers, and exports are from Department of Commerce, 1977-1987 Current Industrial Reports for Consumer, Scientific, Technical, and Industrial Glassware: product codes 32291 (1977) and 32281 and 32317 (1978 and subsequent reports), both covering "Table kitchen, art, and novelty glassware," covering all, and only, merchandise classifiable under the TSUS 546 items and HTS 7013 items (excluding ceramic at HTS 7013.10.10, which is not here at issue and was not part of TSUS 546. Revised data for each year taken from the following year's issue for shipments and interplant transfers (e.g., 1978 issue for 1977 data, etc.). Domestic shipments and interplant transfers estimated for 1988 assuming 1988 levels. Net domestic producer shipments is Domestic Producer Shipments less interplant transfers.

Imports are aggregate landed costs from U.S. Department of Commerce Import Statistics.

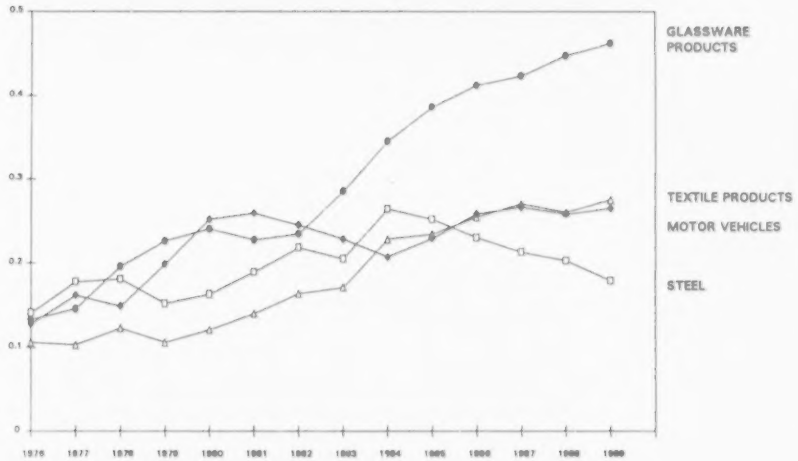


Indeed, the level of import penetration for glassware is roughly twice that confronting the U.S. textile, steel, and automobile sectors, which are consistently recognized as import sensitive in the context of U.S. legislation and trade negotiations. See table below. Automobiles have been the object of voluntary restraint agreements with Japan; import penetration levels in steel were sufficient to result in a massive system of VRAs (see, e.g., Sec. 803 of the Trade and Tariff Act of 1984, Pub. L. 98-573, 98 Stat. 3044 (expressing the sense of Congress that import penetration should be reduced to 17.0 - 20.2%); and textile imports have been the object of import limitations under the Multifiber Arrangement.

U.S. Imports as a Percent of Total U.S. Consumption

	Glass Products	Steel	Textile Products	Motor Vehicles
1976	13.3%	14.1%	10.6%	12.8
1977	14.6%	17.8%	10.3%	16.2
1978	19.6%	18.1%	12.3%	14.9
1979	22.6%	15.2%	10.6%	19.9
1980	24.0%	16.3%	12.1%	25.2
1981	22.7%	18.9%	14.0%	25.9
1982	23.4%	21.8%	16.4%	24.5
1983	28.5%	20.5%	17.1%	22.8
1984	34.5%	26.4%	22.8%	20.7
1985	38.6%	25.2%	23.4%	22.9
1986	41.2%	23.0%	25.4%	25.8
1987	42.3%	21.3%	27.0%	26.6
1988	44.7%	20.3%	26.0%	25.8
1989	46.2%	17.9%	27.5%	26.5

IMPORTS AS A PERCENT OF TOTAL U.S. CONSUMPTION

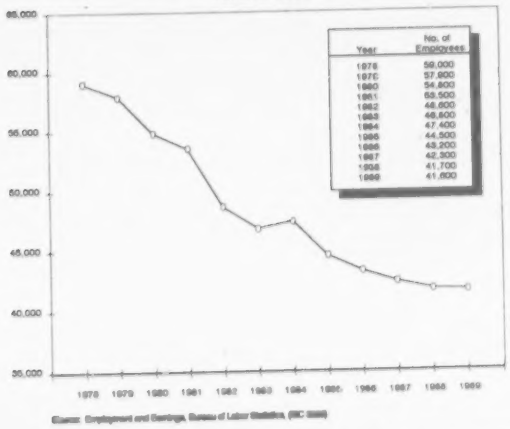


Sources:
Glass Products domestic shipments, interplant transfers and exports are from the Department of commerce Current Industrial Reports for Consumer, Scientific, Technical and Industrial Glassware for 1976-1988 (1988 Estimated). Steel industry from American Iron and Steel Institute Annual Statistics, Table 1A p. 8. 1989 from AISI Apparent Steel Supply Report (pre. data). Textile Mill products from U.S. Imports of Textile and Apparel Products Under the Multifiber Arrangement, 1981-1984, USITC Pub. 1767 & 2200, Table 3. 1988 Estimate from USITC. Motor Vehicle from 1987 Ward's Automotive Yearbook p. 14, New Vehicle Sales by Dealer in U.S., 1973-86. 1987-88 from UPI Release by Jon A. Zuanna, Dec. 29, 1988. 1989 from 2/5/90 Automotive News, p.23.

Prior to the 1974 GSP legislation, the Senate Finance Committee received testimony from labor organizations concerning what was already a substantial loss of employment in the glass industry. See, e.g., Statement of the Glass Workers' Protective Leagues of Illinois-Wisconsin, Indiana, Ohio, Pennsylvania, and West Virginia in The Trade Reform Act of 1973: Hearings Before the Senate Committee on Finance on H.R. 10710, 93d Cong., 2d Sess., Part 6 at 2349 (1974).

Since then, increased import penetration by low-priced products has led to U.S. producers' lost sales, increased costs, reduced profit margins, closing of numerous plants, and lost jobs. Government statistics show that employment in the pressed and blown glass industry decreased by 17,400 workers between 1978 and 1989.

Employment in the Pressed and Blown Glass Industry
1978 to 1989



Source: Employment and Earnings, Bureau of Labor Statistics, (SIC 3229)

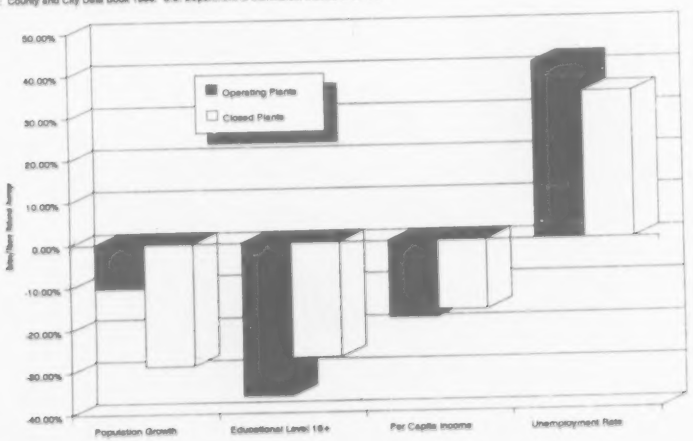
As the table below shows, the communities where glassware plants are located, and where they were previously located, are often below the national average in terms of population growth, education level and per capita income; they are above the national average in terms of unemployment. These demographics make glassware plant closings particularly devastating to the dislocated workers and the communities where the plants are located.

OPERATING (AND CLOSED) GLASS PLANTS ARE OFTEN IN SMALL COMMUNITIES
WITH BELOW AVERAGE PER CAPITA INCOME, EDUCATIONAL LEVELS
POPULATION GROWTH AND HIGH UNEMPLOYMENT RATES

Data		National Average Average	Average of Counties with Operating Glass Plants	Average of Counties with Closed Glass Plants
Growth in population	1	6.40%	-0.66%	-1.84%
Education 12+	2	66.50%	62.74%	63.70%
Education 16+	2	16.20%	10.95%	11.80%
Per Capita Income	3	10,797	8,656	9,031
Unemployment Rate		7.00%	9.92%	9.42%

* Data includes specific counties identified as having operational glass plants in West Virginia, Ohio, Indiana (including three counties which are part of larger metropolitan areas) by the American Flint Glass Workers Union.
** Data includes specific counties identified as having closed glass plants in West Virginia, Ohio, Indiana (including two counties which are part of larger metropolitan areas) by the American Flint Glass Workers Union.

1. 1980 - 1986; 2. Persons 25 years or older; 3. based on resident population estimated as of July 1, 1988 for 1985 data enumerated as of April 1, 1980 for 1979 data.
Source: County and City Data Book 1988, U.S. Department of Commerce, Bureau of Census.



Finally, comparing relevant indicators (import penetration, production and employment) of the glassware industry with those of industries for which the International Trade Commission has made affirmative determinations under Section 201 of the Trade Act of 1974 ("escape clause"), 19 U.S.C. 2251, shows that, even at existing tariffs, the glassware industry would be a prime candidate for escape clause relief. See table below.

The industry cannot rationally be viewed, at the same time that it is in need of import relief, as able to withstand the effects of elimination of duties on the increasing imports from Mexico.

COMPARISON OF THE GLASSWARE INDUSTRY TO THOSE INDUSTRIES FOR WHICH AFFIRMATIVE DECISIONS WERE MADE IN SECTION 201 ESCAPE CLAUSE ACTIONS BY PERIOD OF INVESTIGATION

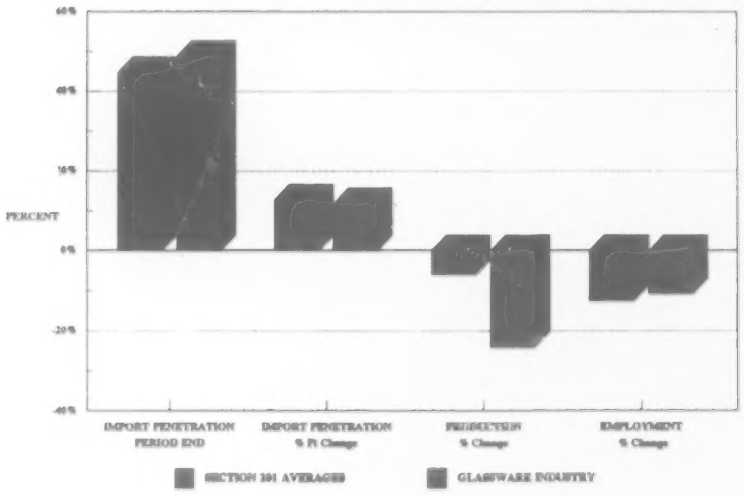
	IMPORT PENETRATION AT PERIOD END	IMPORT PENETRATION % pt Change	PRODUCTION % Change	EMPLOYMENT % Change
AVERAGES IN AFFIRMATIVE SECTION 201 ESCAPE CLAUSE DETERMINATIONS	44.7%	12.8%	-8.0%	-12.5%
GLASSWARE INDUSTRY 1984-1988	48.8%	11.9%	-24.1%	-10.8%

Source: Data sourced from Final ITC Section 201 determinations; ITC Pub Nos. 758, 760, 761, 767, 773, 781, 799, 799, 807, 808, 820, 845, 847, 862, 884, 905, 911, 917, 924, 933, 1008, 1030, 1088, 1342, 1377, 1549, 1553, 1717, and 1826.

Averages for Section 201 determinations were arrived at by taking the arithmetic average of the twenty-six cases reviewed.

Glassware data sourced from 1984-1988 Department of Commerce, Current Industrial Reports for Consumer, Scientific, Technical and Industrial Glassware, Product codes 32281 and 32317, classifiable under TSUS 548 and HTS 7013, excluding HTS 7013.10.10 (Glass ceramics), actual data deflated to 1982 constant dollars using the Economic Report of the President 1988, pp 312-313. Production is based on net domestic producers' shipments.

COMPARISON OF THE GLASSWARE INDUSTRY WITH SECTION 201 AVERAGES



B. The U.S. Trade Representative and the International Trade Commission Recognize that the U.S. Glass Industry Will be Among the Industries Harmed if Tariffs on Competing Imports from Mexico are Among any Eliminated Under an FTA

At the February 6, 1991, Senate Finance Committee hearings on a North American Free Trade Agreement, U.S. Trade Representative Carla Hills testified that, while she expects "losers" among U.S. industries to be few, the glass industry is among those that can be expected to be harmed.

The International Trade Commission similarly recognizes that the glass industry will harmed if duties on U.S. glassware imports from Mexico are eliminated under an FTA:

> The elimination of the duties on household glassware under an FTA would most likely lead to a significant increase in U.S. imports from Mexico. Although moderate demand and high supply elasticities characterize the household glassware market, duty elimination would likely have a much greater impact on U.S. import levels because of the lower cost of Mexican glassware and the already developed channels of distribution for the product in the U.S. market.

The Likely Impact on the United States of a Free Trade Agreement With Mexico, Inv. No. 332-297, USITC Pub. 2353 at 4-32 ("Glass Products") (February 1991) (emphasis added).

Even with present U.S. duties averaging over 20% on household glassware from Mexico (see table below), after-duty prices of the Mexican products are significantly below those of U.S. producers, owing in large part to considerably lower labor costs and lower costs of natural gas:

> U.S. imports of household glassware from Vitro Crisa are often lower priced than comparable U.S. goods, owing in part to its lower labor and energy costs. For example, Vitro Crisa allegedly prices its glass beverageware at about 20 to 30 percent below that of U.S. producers in the U.S. market. Vitro Crisa's lower productivity relative to the U.S. industry is offset by considerably lower labor costs (about $1.50 an hour versus $15 in 1987), which constitute nearly half of the production costs of the U.S. household glassware industry. The cost of natural gas, another major production input, is about 15 percent lower in Mexico.

Id.

Imports and Average Duties Paid on Imports
Glassware Formerly Classifiable under TSUS 546 and Presently Classifiable under HTS 7013

U.S. Imports	1984	1985	1986	1987	1988	1989	1990
All Countries:							
Volume (Mil Units):	332	330	342	340	320	355	$324
FAS Value (Mil. $):	$364	$371	$430	$445	$474	$510	$519
Avg. Unit Value:	$1.10	$1.12	$1.26	$1.31	$1.48	$1.44	$1.60
Mexico:							
Volume (Mil Units):	30	30	37	55	50	62	50
FAS Value (Mil. $):	$11	$13	$12	$15	$15	$21	$19
Avg. Unit Value:	$0.38	$0.44	$0.31	$0.28	$0.30	$0.34	$0.38
Mexico as % of All Countries:							
Volume:	8.96%	9.18%	10.81%	16.11%	15.48%	17.38%	15.36%
FAS Value:	3.07%	3.55%	2.70%	3.46%	3.12%	4.15%	3.61%
Avg. Ad Valorem U.S. Duty Paid on Imports from Mexico:							
CIF Value (Mil $):	$11	$13	$12	$15	$15	$22	$19
Duty:	$3	$3	$3	$4	$4	$5	$4
Avg. Duty Rate:	27.26%	24.24%	26.62%	26.96%	26.07%	22.13%	21.39%

Notes: All import statistics sourced from U.S. Dept. of Commerce Import Statistics Data are for the aggregate of HTS 7013.21, .29, .31, .32, .39, .91, .99

Not only would "the elimination of the duties on household glassware under an FTA [ ] most likely lead to a significant increase in U.S. imports from Mexico" (USITC Pub. 2353 at 4-32), it would also further lower the prices of the Mexican product to the extent of duty elimination.

Duties under heading 7013 of the Harmonized Tariff Schedules of the United States (HTS) range from 6% to 38%, with higher duties generally applicable to lower-value articles. The average duty paid on imports from Mexico under HTS 7013 in 1990 was 21.39% (see Table below), indicating their concentration toward the higher-duty (lower-value) end of the spectrum. Elimination of duties on the HTS 7013 articles from Mexico would make it impossible for the U.S. producers to compete when the price for Vitro Crisa's glass beverageware, for example, is already "about 20 to 30 percent below that of U.S. producers in the U.S. market" (USITC Pub. 2353 at 4-32).

The low prices of the Mexican glass products at existing tariff levels cause a ripple effect of price depression in the U.S. market. Not only are U.S. producers forced to choose between meeting the prices of the Mexican products or losing sales, the prices of other imports against which the U.S. producers compete are also depressed by Mexican prices and price quotations in the marketplace. This generalized price depression results in lost sales when the U.S. producers do not meet the depressed prices and reduction or elimination of profits when they do.

At the same time elimination of duties will cause substantial increases in glassware imports from Mexico, and further decreases of their prices in the U.S. market, the Commission acknowledged that the Mexican glassware market is small, and distribution is dominated by the major Mexican glass producer, Vitro Crisa.

> The expected growth in U.S. exports to Mexico would be more limited because of the dominance in the Mexican market of Vitro Crisa with its extensive distribution network, and the smaller size and purchasing power of the Mexican glassware market. In addition, Mexico's less developed infrastructure and marketing channels hinder development of an effective distribution system.

Id. That is, the U.S. glassware producer's face a "lose" situation on the U.S. side of the boarder and a "no-win" situation on the Mexican side.

C. GATT Requirements for Exclusion of Products from FTA Duty Elimination

If the negotiations proceed, the administration and Congress should seek to eliminate or minimize the number of U.S. industries that are seriously harmed through duty elimination. The very substantial differences in levels of development between the United States and Mexico (with corresponding differences in wage rates and practical differences in "externalities" such as environmental and worker standards), the large volumes of existing trade, the geographical proximity of the nations and the importance of selected industries in local communities, all suggest that any agreement must proceed from a different basis than the agreements negotiated to date. A more careful approach is not prohibited by our international agreements.

For example, Article XXIV of the GATT only requires that a free trade agreement or a customs union cover "substantially all trade" in the area or union. That is, 100% coverage under an FTA is not required.

Our trading partners in negotiating such arrangements have often excluded notable portions of the manufacturing and/or agricultural base. Existing arrangements of the EEC under GATT Article XXIV, including the exclusion described below, have not been challenged or found inconsistent with Article XXIV.

EEC Agreements with Portugal (December 19, 1972), OJ L 301, 31.12.1972. Excluded products specified in Protocols Nos. 2 and 8 (several agricultural products, spirits, alcohols, glue, and chemical products). The parties indicated that duties would be eliminated on only 77% of the EC's imports from Portugal. GATT, BISD at 175 (20th Supp. 1974).

EEC Agreement with Spain (July 20, 1970), OJ No L 182, 16.8.1970. Tariffs would be removed from 72% of the total imports from Spain to the EC and from 76% of the total imports from the EEC to Spain. GATT, Basic Instruments and Selected Documents at 173 (18th Supp. 1972).

Agreements between the EEC and Egypt, Syria, Jordan (September 26, 1978) OJ Nos 266, 268, 269, 27.9.1978. Excluded all products covered by the common agricultural policy[1], and raw materials and industrial products of the ECSC (European Coal and Steel Community)[2].

EEC Agreement of Association with Malta (March 1, 1971). "Common agricultural policy" products excluded. Agreement, Annex I.

EEC Agreement of Association with the United Republic of Tanzania, The Republic of Uganda, and the Republic of Kenya (September 29, 1970) OJ No 282, 28.12.1979; OJ Special Edition, 2d. Ser., I. External Relations (January 1974) (English version). Excludes products subject to rules under the common agricultural policy of the EEC.

EEC Tunisia Cooperation Agreement (April 25, 1976). Excludes products covered by the "common agricultural policy," raw material, and industrial products, including ECSC products.

EEC Agreement of Association with Turkey (December 23, 1963) OJ No 217, 29.12.1964; OJ No C 113, 24.12.1973 (English version) "Takes into account" product covered by the common agricultural policy (Article 11), and excludes products within the province of the ECSC (Article 26).

EEC Algeria Cooperation Agreement (November 1, 1978). Excludes products covered by the common agricultural policy.

Hence, the EC's approach, never found to be GATT inconsistent, has excluded sectors from agreement coverage when their inclusion would lead to injury or destruction of the sector. A similar approach of exclusions should be adopted in any arrangement between the United States and Mexico.

The U.S-Canada and U.S-Israel models, covering 100% of trade, should not be woodenly followed in the case of U.S.-Mexico given the magnitude of trade involved, the countries' geographic proximity, and their extreme differences in levels of development.

Exclusion from duty reductions for those few industries recognized by the administration and found by the U.S. International Trade Commission to be vulnerable should be viewed as a desirable outcome to the negotiations. Failure to exclude would result in serious additional harm befalling many members of the U.S. glassware industry. Even an extended duty-phase-out period, e.g. 20 years[3], while preferable to immediate duty elimination, would simply extend the period over which the glass industry is subjected to crippling injury from Mexican imports.

Such an approach is also consistent with the Mexican position that certain sectors are not negotiable.

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1 "'Agricultural products' means the products of the soil, of stockfarming and of fisheries and products of first-stage processing directly related to these products." Treaty Establishing the EC, Article 38 (1973).

2 The expressions "coal" and "steel" cover products listed in Annex I to the ECSC Treaty, which includes fuels, iron and steel, pig iron and ferro-alloys, crude and semi-finished products of iron, hot finished products of iron, and end products of iron, and other raw materials for iron and steel production.

3 Although the two U.S. FTAs (Israel and Canada) provided for complete duty elimination at the end of ten years, GATT Article XXIV only requires that the agreement go fully into effect within "a reasonable length of time." What is reasonable will depend upon, among other things, the degree of economic disparity between the two countries. The EC, for instance, in additional to excluding substantial portions of trade from its Article XXIV agreements, also interpreted "a reasonable length of time" to include 22 years or even an undefined period in agreements with less developed countries. Under the Agreement with Turkey, Common Customs Tariff were applied only at the end of 22 years. The Agreement with Spain provided for duty elimination, without a period specified. Agreements with Egypt, Syria and Jordan (September 26, 1978) also specified no time period for completion of the transition period, leaving the issue one for consideration in general reviews. The transition period under the EC's interim Agreements with Tanzania, Uganda and Kenya, with Tunisia, and with Algeria were also for an unspecified periods.

II. CONCLUSION

The USTR and the ITC have identified few sectors, including glassware, which will be adversely affected by an FTA with Mexico. The means to look out for the interests of those sectors exist. Exclusion of glassware under HTS 7013 from FTA coverage would be consistent with the USTR's and the ITC's acknowledgment of the industries vulnerability, with Article XXIV of the GATT, with our trading partners' free-trade and customs-union arrangements, and with the overall goal of permitting those industries who can benefit from an FTA to in fact benefit.

Respectfully submitted,

LIBBEY GLASS, INC., A UNIT
OF OWENS-ILLINOIS, INC.

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Vice President and
General Manager

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Terence P. Stewart
Charles A. St. Charles

Special Counsel to Libbey Glass, Inc.

Chairman GIBBONS. Well, thank you.

I am going to have to refrain from any questioning because those bells that were going off while you were talking means that we have to go over and vote. So we will have to break in a minute.

Mr. Jenkins.

Mr. JENKINS. Thank you for your testimony; it was very enlightening.

Chairman GIBBONS. Mr. Pease.

Mr. PEASE. Mr. Chairman, we're short on time here so I won't ask many questions either. But I wanted to make a point with Mr. Meier, or at least ask him, reference has been made to the fact that productivity is much, much greater in the United States, than it is in other countries. Is that related to the inherent ability of workers or is it related to the amount of capital applied to the manufacture of goods?

Mr. MEIER. Productivity in the United States is greater than it is in other countries. I would agree with your statement, Mr. Pease, across the board, in all industry. In the glass business, in the tableware business, I wished I could make that statement. They have exactly the same machines I have, exactly the same technology. Therefore, productivity we may have an edge, I hope we do. I can't promise that it is significant in the tableware business.

Mr. PEASE. Well, I was trying to get to that. So in your particular case, the equipment would be roughly the same on either side of the border?

Mr. MEIER. Absolutely, absolutely.

Mr. PEASE. And so the advantage they have in wages——

Mr. MEIER. Is significant.

Mr. PEASE [continuing]. Is the real factor in your competition with them?

Mr. MEIER. It is the entire reason that our industry in the 1980's has been totally decimated. It is the labor rate advantage from all around the world, not just the Mexicans. The Mexicans, of course, are the subject of the day and they are right up there with a major wage rate advantage.

Mr. PEASE. Mr. Chairman, I want to try to make a point which I hope is valid and that is that we are often told by proponents of a free trade agreement that we don't have to worry about the wage differential because American labor is so much more productive than foreign labor. I think the fact of the matter is that we are more productive because we have better and more efficient machines, not because the workers are smarter or work harder at all.

In the old mode, before we became a global marketplace, Third World countries had lower productivity because they did not have the machinery and it took them a long time to get the machinery. They had to develop the capital within that country.

In the global market place, in the new reality is that if you get a country like Mexico with low wages, the capital doesn't have to be generated in Mexico, it can be supplied by the United States, by Japan, by Europe, by whomever else.

So that in the new situation, when you open up an area like Mexico and open its borders to the United States, you are immediately contrasting the wage differential in Mexico with the wage differential here, in the United States, because the capital can be sup-

plied so that from the point of view of efficient machinery, either place is roughly the same.

I thank you.

Chairman GIBBONS. I regret that we are going to have to call a halt now and have to take 5 minutes to go and vote. I appreciate all of you coming and I thank you for your testimony.

Thank you, very much.

We will resume at 2 p.m.

[Whereupon, at 1:06 p.m., the subcommittee recessed, to reconvene at 2 p.m., the same day.]

Chairman GIBBONS. All right. The meeting of the Ways and Means Subcommittee on Trade will resume for this hearing.

We have a panel now composed of the Florida Department of Agriculture and Consumer Services, the commissioner of agriculture himself, Hon. Bob Crawford; the United Fresh Fruit and Vegetable Association, John McClung; Furman Foods, Inc., of Northumberland, PA, Mr. Furman; and Crystal Valley Farms, Corning, NY, Mr. Stuart.

I first want to introduce a very distinguished official from Florida, Mr. Crawford. Mr. Crawford is the commissioner of agriculture and consumer services in Florida. It is an elected position. He serves in that position, and he has served before in the Florida legislature where he compiled a very distinguished record as a house member, as a senate member, and as the president of the Florida Senate.

Mr. Crawford, we are going to allow you to go first. You can read your statement as you wish, or you can summarize it and we will put it in the record in its entirety, or just proceed as you wish.

STATEMENT OF BOB CRAWFORD, COMMISSIONER OF AGRICULTURE, FLORIDA DEPARTMENT OF AGRICULTURE AND CONSUMER SERVICES

Mr. CRAWFORD. Mr. Chairman, I will summarize.

Chairman GIBBONS. All right. Without objection, we will put your entire statement and those of the rest of the panel in the record.

Mr. CRAWFORD. Thank you, Mr. Chairman.

I appreciate the chance to talk with you today. I am glad that you are here because you are the man I really want to talk to. As a neighbor back home, it is certainly good to see you here today.

I will be very short and try to keep it right to the point of what I think are some of the key concerns.

In Florida we find ourselves in a very unique position as it relates to this free-trade agreement as I think it is contemplated in terms of relieving the tariffs on fresh fruits and vegetables and the products produced from them.

As you know, Mr. Chairman, in Florida we are very proud of the fact that during the winter months, we supply the United States of America 50 percent of all of the fresh fruits and vegetables that are consumed in this country. So in the wintertime, Florida literally puts the food on the dinner tables for America. We are proud of that, and we think that is very important.

We have a $6.2 billion agricultural industry in the State of Florida, and we are concerned that without some special consideration

for fresh fruits and vegetables, particularly in the winter months, we will possibly choke off a major portion of that Florida agriculture.

I think it is important that as we engage in these difficult times with the Persian Gulf, there is at least one lesson that we have learned through this experience: That it is foolish for us to try to depend on foreign countries for our essentials. In this country food has to be top on our priority list. If oil can bring this country to its knees, just think what food can do, or the lack of food for our people to eat. We produce food in Florida, and we want to continue to produce it.

We feel that a free trade agreement with Mexico with no special provisions for fresh fruits and vegetables would virtually shift that winter production to Mexico because of the advantages that they have in their country. I want to talk a little bit about these advantages and how I think we can equalize the playing field so that it does not have this detrimental effect on Florida.

I think it is important to note that while it has this economic impact on Florida, it is not just an impact from a provincial viewpoint, but for the entire country. We need to be self-sufficient and not depend on any foreign country for our food supply, whether it be Mexico or anyone else.

There are several areas in which we find ourselves at a disadvantage. First of all, I want to talk about food safety.

In the State of Florida, I am very proud that our department is in charge of ensuring food safety for our people, and I think we do a very good job of that. We enforce the rules and regulations promulgated by the State and Federal Government very vigorously. We have a staff of 3,800 people, many of whom are involved in food safety issues. On a daily basis we monitor, we sample and we have the most sophisticated equipment in the world to make sure that our consumers are not subject to any danger from pesticide residues or any other contamination of their food.

If we should shift more to the Mexican environment for the production of our winter fruits and vegetables, I am afraid that under the current conditions we cannot be comfortable that our people will be as protected and ensured of having a safe food supply.

I am sure that it has been said that Mexico has similar laws on the use of pesticides. While they may have the laws, do they have the enforcement of those laws, do they have the regulatory inspections that our country has and the State of Florida has? I think you will find that that is not the case.

We would hope that in any trade agreement we would require a regulatory environment that is equivalent to the regulatory environment in this country as it relates to the use of pesticides and any food safety questions.

It is important to know that if our only ability to protect the American consumer on the food safety issue is by sampling at the port of entry, that is totally inadequate. That will not get the job done. As we increase the imports from Mexico, it exposes Americans to more liability in terms of food safety.

To ensure food safety, you have to have onsite inspection at the farm level to make sure that no illegal pesticide is being used, or if legal pesticides are being used, that they are being used properly.

If the monitoring and the sampling to enforce food safety takes place at the border or at the port of entry and 3 to 4 days have passed since the pesticide has been applied, even the most sophisticated equipment cannot pick up pesticide residues at that point.

So you have to have a significant amount of sampling very close to the harvest time, and actual confirmation on the farms that you do have an adequate regulatory enforcement of the laws of any country, and in this case, Mexico.

So we would hope that we would find a way to establish this equivalent regulatory environment with Mexico, and that certainly would make a trade agreement much more palatable.

There are a number of other issues that would cause the shift of production away from Florida and into Mexico. Our winter months of production are similar to those in Mexico so that puts us in direct competition. If we shift away from Florida, that production will not go to Georgia or Alabama or any of those other States. They cannot grow in the wintertime.

Florida is the only place that can grow in this country during those months. In fact, a couple of the months in the winter Florida supplies the only domestic production of seven important vegetable commodities. So we are kind of the last best hope for food supply for this country. We would hope that that would not be shifted to Mexico.

Labor is certainly one of the most important factors as it relates to our ability to compete, and we do not think we are on a fair playing field. There are a number of issues there.

I might relate one piece of information, that a group of growers from the Homestead area recently took a tour of Mexico and they visited various agricultural facilities. One morning they were at a tomato field just before it was time to go out and pick. They noticed the buckets, the pails they were going to use to put the tomatoes in were about half the size of the buckets and pails that we use in this State for picking tomatoes. They wondered why this was. Well, when the work force finally arrived, it was readily apparent why. Because the work force was small children, and they could not pick up a full-sized bucket, so they had the smaller buckets.

So there is a comparative disadvantage there. There is a social issue involved, whether or not we want to displace our agricultural workers in Florida and transfer that instead to Mexico where you do not have the same type of enforcement of labor laws. I think that is probably not good policy for this country.

So we would hope that any trade agreement will take these matters into consideration, particularly the fresh fruits and vegetables produced during the winter months. It is not a lot to ask, I feel comfortable in saying. We are only talking about approximately 1 percent of the entire trade environment with Mexico if we were to allow an exemption for those fresh fruits and vegetables. So you could have a very substantial trade agreement and still have this exemption.

Basically the exemption that we are asking for would be just to continue the existing tariffs that are now on these commodities. If you look at the tariff levels that are currently in place, they are very minimal. On tomatoes, for instance, which is a very important

crop in this regard, it is 3.3 cents per kilo, or 2.2 pounds, of tomatoes.

So it is not in any way a tariff that is going to stop Mexican tomatoes from coming into this country. We buy Mexican tomatoes, they are coming in now. We will continue to do that. But it gives the Florida grower who supplies this country half of their vegetables during the wintertime an opportunity to compete, and we think it is reasonable to maintain that exemption. We are exploring other mechanisms that might accomplish the same end and do it in a way that is acceptable to those people who are looking at this subject. So we would hope that we could have some consideration in that regard.

I believe that in some of Ambassador Carla Hills' testimony, she has said that she did recognize that fresh fruits and vegetables could need special consideration. I think that was the quote, special consideration. So she has recognized that this a very sensitive area. It is a major blow to Florida agriculture, and I would hope that we could find a way to accommodate these concerns.

With that, Mr. Chairman, I appreciate the chance to be here.

[The prepared statement and an attachment follow:]

TESTIMONY OF BOB CRAWFORD
COMMISSIONER OF AGRICULTURE, STATE OF FLORIDA

Mr. Chairman, I am Bob Crawford, Commissioner of Agriculture for the State of Florida and I thank you for the opportunity to appear before you today to discuss a subject of potentially great adverse impact upon Florida agriculture and the domestic production of fruits and vegetables so essential to our nation's health and welfare. I also thank you for your leadership in chairing and holding these hearings on such an important topic to Florida agriculture. The proposed Mexican Free Trade Agreement, if enacted, will adversely affect Florida's $6.2 billion agriculture industry.

Florida, because of our geographical location and climate, will be the U.S. region most affected by any proposed free trade agreement with Mexico. Our winter grown agricultural commodities and their products will be in direct competition with Mexico and we will be unable to compete if current government-mandated production and marketing costs are not considered in negotiations. Any agreement is less likely to impact traditionally subsidized U.S. commodities and much more likely to affect nonsubsidized, market driven, labor intensive industries like fruits and vegetables, flowers and livestock.

While we do not oppose free trade in commodities, we cannot have conditions for free trade unless we harmonize government controls and unless we confirm on site that regulations relating to food safety, pesticides, sanitation, labor, farmworker safety, minimum wage, child labor restrictions, workman's compensation, social security and environmental protection, are similar and are being enforced between the U.S. and Mexico. Both countries need a domestically produced food supply available to supply essential nutrients and health.

Florida agriculture, once lost, will not be regained. Likewise, if small family Mexican farms are lost, they will also be difficult to regain. There are also many social implications to both countries for the vast thousands of agriculture workers affected.

These comments as well as specific statistics and citations were filed with the International Trade Commission for their examination of the potential impact of such a free trade agreement. I have attached a copy of our document for your record and you likewise have before you a jointly sponsored statement specific to citrus. In the final ITC report which you have just received, we were pleased to note their recognition that "An FTA is expected to affect significantly the level of U.S. trade with Mexico in agricultural products."

Today I wish to request your consideration of the effects of such an FTA on our state and our nation's <u>food systems</u>, <u>food safety</u> and <u>food security</u>.

The <u>food system</u> of production, processing, transportation and delivery currently in place differs greatly between the two countries and does not permit a "free" trade situation. Wage differentials, child labor restrictions, and the complex myriad of laws which we support and actively enforce regarding environmental protection, pesticide regulatory controls, farmworker safety, field sanitation, immigration, phytosanitary requirements, minimum wage and plant protection place the U.S. horticultural industry, and particularly Florida agriculture, in a distinct disadvantage economically and regionally. The fast track process will not allow amendments to consider these factors.

We must have comparable <u>food safety</u> regulatory controls in both countries. In the U.S., and in Florida, we are at an increasing disadvantage as we struggle to produce fruits and vegetables in a nonprice supported, nonsubsidized arena. In pest and disease control, the U.S. Environmental Protection Agency classifies our essential fruits and vegetables as "minor crops" under the law. We are increasing our scrutiny to assure that no pesticide residues

are present in our foods yet we also have fewer and fewer chemicals to use to produce food and tighter controls on those allowed. Similar food regulatory assurances must be in place in Mexican agriculture before "free" trade can be achieved. On site verification that regulatory programs for food safety are operable and routinely utilized must be required and accomplished. Pesticide controls and residue prevention must be comparable and equally enforced in both countries.

My food safety concerns involve much more than pesticide usage, we must also be concerned with microorganisms and nutrients in food. Major food safety hazards involve microbial food borne illness from Salmonella, Shigella and other food poisoning bacteria. Unless similar programs to insure field sanitation, washing of commodities, and hygienic requirements for farmworkers are equal and strictly observed then microbial food borne disease is a risk.

A second major food safety hazard today that we often forget is the nutritional content of the foods we eat. At the very time in our nation's history when eminent authorities from our Surgeon General to our National Academy of Sciences are imploring the American public to increase their consumption of fruits and vegetables to elevate their overall health and quality of life and to decrease their risk of cancer and chronic disease, it seems illogical that we would risk the agricultural production of the very foods so essential to the maintenance of our nation's health.

Our concerns on the proposed agreement must also address the matter of food security. The 1990 Farm Bill recognized the critical role of fruits and vegetables in our nation's health and economy. We must retain a minimal domestic production of fruits and vegetables and other foods to remain strong and viable as a nation. As we fearfully watch the conflict in Iraq and feel our nation's vulnerability with dependence upon foreign oil, I think we should each pause to contemplate the vulnerability of our nation if we become totally dependent upon a foreign supply of essential items in the American diet. At this very moment, Florida is the sole domestic producer of many fruits and vegetables in the American marketplace during these winter months. This food security must not be traded away.

Therefore, we request that Congress consider the following areas in negotiation of any free trade agreement:

1. Include labor issues as an essential item in any negotiations including costs and regulatory constraints.

2. Eliminate the fast track process to allow appropriate address to the issues of unequal labor costs, regulatory and environmental constraints, and food safety and health considerations.

3. Require similar food safety and pesticide laws and regulations, harmonize existing pesticide registration and residue regulations, and maintain specific on-site verification and testing of agricultural products.

4. Negotiate reciprocal agreements between the two governments on food safety compliance before negotiations proceed.

5. Identify all policies affecting traded agricultural commodities and the impacts of these policies on the availability and price of such commodities.

6. Exempt from the Mexican Free Trade Agreement all winter-produced agricultural commodities and products made from them--either indefinitely or at least until the concerns I have outlined today are sufficiently addressed.

Of the total U.S. exports to Mexico, fruits and vegetables only constitute $36 million of a $1.8 billion estimated total export. Of the $19.2 billion imports especially in the competitive arena of fruits and vegetables, imports of these commodities only accounted for 1.1% or $212,400,000 of the $19.2 billion total. So, fruits and vegetables if currently exempted from this negotiation process would not significantly impact the end agreement.

We believe that a similar position has been recognized in the verbal comments of our U.S. Trade Representative Carla Hill. Also, the International Trade Commission report to Congress likewise concluded that "Concerns of U.S. agriculture such as those over wage differentials between United States and Mexican farmers and fair and equal health and food safety standards are national issues and not limited to border agricultural producers.

Florida has seen many examples of what can happen with uncontrolled foreign competition in labor intensive industries. Our cut flower industry from a high of over 70 producers dropped to 41 in 1973 and today only 9 producers remain. Our fruit and vegetable industry must not follow this example.

Mr. Chairman, I request you to consider these issues involving food systems, food safety and food security in your deliberations and negotiations on the question of a U.S. - Mexican Free Trade Agreement. We urge you to act cautiously, and not in haste, for great losses in Florida agricultural production will affect the health and welfare of the entire nation, not just Florida. Thank you for the opportunity to make known the unified position and concerns of Florida agriculture.

Verbal Congressional Testimony
by Florida Agriculture Commissioner Bob Crawford

before the Subcommittee on Trade
Committee on Ways and Means
U.S. House of Representatives
Washington D.C.
February 1990

Mr. Chairman, thank you for the opportunity to address Florida's concerns about the proposed Mexican Free Trade Agreement.

My comments today, as well as a more detailed, written statement have been filed with you and with the International Trade Commission. In addition, the Florida Department of Agriculture and Consumer Services has co-sponsored a separate, written statement with the citrus industry, which you have also received.

I appear before you today with a simple message. Unless amended, the Mexican Free Trade Agreement may well choke off Florida's premier industry... our $6.2 billion dollar agriculture industry. And once it's gone, it will not come back.

If that occurs, the loss is not Florida's alone. It is the nation's loss. Currently, Florida produces more than half of the nation's supply of winter produce. And at certain times of the year we are the only domestic producer of many fruits and vegetables.

In the dead of winter, Florida puts dinner on America's table. If we sacrifice that capability, we are turning over control of how we fulfill our most basic need -- our need to eat -- to a foreign country.

If there are any lessons already to be learned from the war in the Middle East, it is the foolishness of trading away our self-sufficiency to a foreign nation. And if you think lack of oil can bring this super-power to its knees, try lack of food.

That is an issue of national security, and it must not be overlooked in the rush to eliminate trade barriers with Mexico.

Secondly, the proposed Mexican Free Trade Agreement threatens the safety of our food supply by replacing carefully monitored, domestic fruits and vegetables with a foreign product that may not meet our safety standards.

Florida maintains an aggressive program to ensure that pesticides are used sparingly and properly and that certain pesticides are not used at all.

We know that Mexico does not have an equivalent regulatory program. By the time most Mexican produce reaches this country, it's impossible to detect whether it was sprayed with a chemical that is illegal for use in the United States.

Beyond chemical residues, poorer sanitation conditions in Mexico greatly increase the chances of microbial contamination that can result in food poisoning. As a result, we simply cannot ensure that a Mexican tomato is as safe as a Florida tomato.

Unless you insist upon parallel pesticide requirements and an equivalent regulatory program, you are accepting a lower standard of safety for the food that we eat. And that is bad public policy.

Thirdly, I would ask you to insist on a trade agreement that is not only free, but fair. Mexican produce is grown under vastly different conditions and restrictions than domestic produce.

A recent visitor to a Mexican tomato field observed that the pails they use are half the size of ours. It soon became evident that the reason for the difference is that children do most of the picking, and they can't carry the larger pails.

Of course, child labor is only one of the distinctions between Mexican and domestic growers. Differences in wages, farmworker safety and sanitation laws, workers compensation requirements and environmental protection laws put Florida growers at a real disadvantage in a pure head-to-head competition.

For all of these reasons, I would ask you to consider the following:

1. Withdraw the Mexican Free Trade Agreement from the "fast track" process to allow thorough consideration of these and other issues.

2. Include labor issues, such as costs and regulatory restraints, in the negotiations on this agreement.

3. Require similar food safety, sanitation and pesticide regulations, backed up by on-site verification.

4. Include a reasonable allowance for differences in labor, environmental and other governmental requirements.

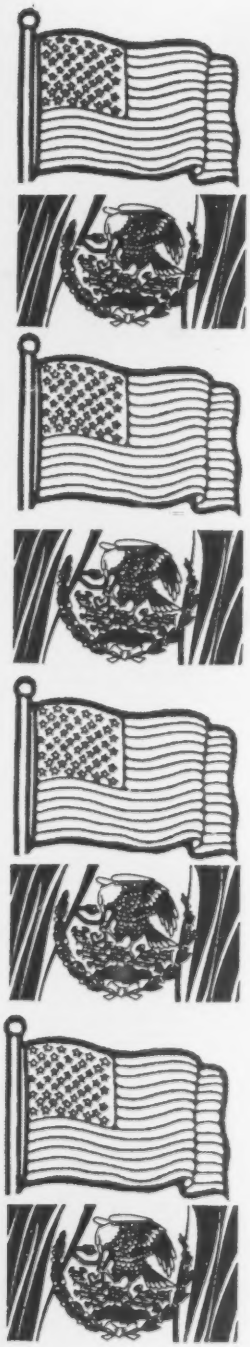
5. Exempt from the Mexican Free Trade Agreement all winter-produced agricultural commodities and products made from them -- either indefinitely or at least until the concerns I outlined today are sufficiently addressed.

Fruits and vegetables constitute only 1.1 percent of all U.S. imports. So, these commodities could be exempted from the negotiation process without significantly impacting the overall agreement.

In closing, I would urge you to act cautiously and not in haste. If Florida's agriculture industry were driven out of business by this agreement, it would be a significant loss to Florida. That is a matter of concern for our Congressional delegation.

But because of Florida's unique role in supplying a vital part of our nation's food supply, the end of Florida agriculture would also be a national loss. And that should concern us all.

Thank you.



Statement by the
Florida Department of Agriculture &
Consumer Services
on the

Proposed U.S. - Mexican Free-Trade Agreement

The Honorable Bob Crawford
Commissioner of Agriculture
State of Florida

and the

Florida Cattlemen's Association
Florida Citrus Mutual
Florida Citrus Packers
Florida Citrus Processors Association
Florida Department of Citrus
Florida Farm Bureau Federation
Florida Foliage Association
Florida Fruit and Vegetable Association
Florida International Agricultural Trade Council
Florida Lime and Avocado Administrative Committees
Florida Nurserymen and Growers Association
Florida Ornamental Growers Association
Florida Tropical Fruit Growers Association
Florida Strawberry Growers Association
Florida Tomato Committee
Indian River Citrus League
Gulf Citrus Growers Association

STATEMENT BY THE FLORIDA DEPARTMENT OF AGRICULTURE AND CONSUMER SERVICES

OVERVIEW

The proposed Mexican Free-Trade Agreement, if enacted, will adversely affect Florida's $6.2 billion agriculture industry. Florida, because of geographical location and climate, will be the U.S. region most affected by any proposed free-trade agreement with Mexico and will be unable to compete if current government-mandated production and marketing costs are not considered.

Florida, like other industrialized nations, is handicapped in competing in production costs with nonindustrialized nations not simply because of wage differentials between U.S. and foreign producers, but also because Florida and U.S. farmers must comply with a myriad of laws, rules and regulations concerning immigration, environmental protection, pesticide residues and the work force. For most of our agricultural commodities, these regulations place us at a distinct disadvantage in world markets. We do not dispute the necessity nor the requirements for providing a safe and healthy workplace for Florida agricultural production workers. We are in total agreement with the need to control the use of chemicals and fertilizers to ensure the land and environment are safe for current and future generations. Finally and most importantly, we are committed to providing a safe and wholesome food product to the American public at a reasonable price.

On behalf of Florida, we urge you to conduct exhaustive studies to determine the exact liabilities of any Mexican Free-Trade Agreement as well as any benefits to our country as a whole. Any agreement is much less likely to impact traditionally subsidized U.S. commodities, and much more likely to affect non-subsidized, market driven industries like fruits and vegetables.

An extensive review of Mexican shipments of agricultural products into Florida, specifically, and the United States in general, will reveal a dramatic negative impact on agribusiness with the current level of tariffs in place. Any removal of tariffs and easing of regulatory controls would enable Mexican agricultural imports to increase markedly, thus intensifying pressures on Florida's agricultural products.

Regrettably, accurate information regarding Mexican fruit and vegetable production, acreage, costs, traded commodity statistics, regulatory program inspections and testing, and animal and plant pest and disease incidents have not been available.

This statement presents the views of the Florida Department of Agriculture and Consumer Services on the proposed U.S.- Mexican Free-Trade Agreement (FTA) and the elimination or modification of U.S. tariff treatment on products imported from Mexico, including fresh fruits and vegetables, as well as orange juice, and other citrus and horticultural products. Additional concerns have been expressed about animal and plant pest and disease incidence and regulations in Mexico. While many industry segments and associations have separately offered their individual views, this document represents a compilation of the views of the Florida Department of Agriculture and Consumer Services, Florida Department of Citrus, Florida Citrus Mutual, the Florida Citrus Packers, the Florida Farm Bureau Federation, the Indian River Citrus League, Gulf Citrus Growers Association, Florida Strawberry Growers Association, the Florida Fruit and Vegetable Association, Florida Tomato Committee,

Florida Cattlemen's Association, Florida International Agricultural Trade Council, the Florida Nurserymen and Growers Association, Florida Lime and Avocado Administrative Committees, Florida Tropical Fruit Growers Association, Florida Foliage Association, Florida Citrus Processors Association and the Florida Ornamental Growers Association.

Florida has many major fruit and vegetable commodities, including citrus, tomatoes, peppers, tropical fruits and others, which will be greatly affected by this proposed agreement. Two of these commodities, oranges and tomatoes, account for 32% of Florida's cash receipts from agriculture, or over $2 billion. According to the Agribusiness Institute of Florida, agriculture accounts for approximately 22 percent of civilian jobs in Florida. In 1989, agricultural contract and hired labor totaled $814 million. The asset value of the 41,000 farms in Florida totaled $24 billion and contributed $106 million in property taxes.

While we do not oppose free trade in commodities, we cannot have conditions for free trade without harmonization and confirmation of regulations relating to food safety and pesticide, sanitation, labor, farm worker safety, minimum wage, child labor restrictions, workman's compensation, Social Security and environmental protection.

SITUATION OF THE FLORIDA FRUIT AND VEGETABLE INDUSTRY

The $1.5 billion Florida vegetable industry (nearly half of which is tomatoes) suffered increased competition from Mexico for the winter vegetable market during the 1980s. The increase in the importation of produce from Mexico and other countries was due to a number of factors. The May 1988 GAO Report, Agricultural Trade: Causes and Impacts of Increased Fruit and Vegetable Imports, documents the economic and demographic developments in the 1980-86 period that brought about the rise in U.S. fruit and vegetable imports. According to the GAO report, the following six factors help explain the increase:

1) lower production costs abroad;

2) rise in the dollar's exchange rate against the currencies of countries that export fruits and vegetables to the U.S.;

3) actions by foreign governments, such as subsidizing production costs;

4) bad weather and crop disease that resulted in reduced supplies of domestic commodities;

5) increasing globalization of agriculture, with expanded flows of commodities and capital across national borders and increased agricultural production worldwide; and

6) demographic and lifestyle changes in the United States that resulted in increased consumer demand for fruits and vegetables.

Nowhere in this report is the increase in imports of fruits and vegetables into the U.S. attributed to inefficiencies or an inability to compete on the part of the domestic industry. In reality, the fruit and vegetable industries in the U.S. are extremely competitive, with U.S. producers subject to the

extremes of a free market and global competition. Florida agriculture believes that it can compete with Mexico, using U.S. wages, if free trade in labor is allowed. Issues concerning immigration and labor, unfortunately, have already been deleted from the agenda by Mexico. It is critical that labor issues, such as wages, safety and child labor restrictions, be added back to the agenda before any further talks proceed.

A working paper, "The Potential Effects of Labor-Intensive Agriculture in Mexico and United States-Mexico Migration," (by Gary Thompson and Phillip Martin) for the Commission for the Study of International Migration and Cooperative Economic Development outlines, some of the competitive forces facing the Florida tomato industry and how the industry has adapted:

> 1) Devaluation of the peso since 1975 has held wages for Sinaloa, Mexico tomato workers constant in dollar terms, whereas Florida real wages have increased steadily over the same period.
>
> 2) Use of superior technology and management by Florida growers means only 11 minutes of labor is required to pack a 25-pound carton of tomatoes in Florida as opposed to 23 minutes of labor in Sinaloa, Mexico.

Furthermore, the authors of this study believe that if the tariff on the importation of Mexican tomatoes was removed, 20% of the Florida tomato industry would be lost immediately. This translates into a loss of 8,700 jobs and $120 million.

Florida agriculture, once lost, will not be regained.

SITUATION OF THE FLORIDA CITRUS INDUSTRY

The Florida citrus industry is expected to face difficult times in the years ahead. The proposed FTA comes at a time when world citrus production is expected to expand rapidly, leading to much lower prices than have prevailed in the 1980s. Of particular concern to Florida is the forecasted growth in Mexican orange production, which is expected to increase by more than 60% by the year 2000. A significant portion of the growth is expected to be orange juice for export. Given these market expectations Florida citrus producers are expected to barely cover costs of production for the foreseeable future.

A reduction in the U.S. citrus tariff structure would exacerbate the expected impact of growing world supplies on the profitability of the U.S. citrus industry. Mexico will become an even larger supplier of orange juice to the U.S. market because of the economic incentive Mexico will realize from a tariff reduction. Mexico is already the second largest foreign supplier of orange juice to the U.S. From 1985 to 1989, U.S. imports of orange juice from Mexico increased nearly fivefold. Orange production has been growing in Mexico at an enormous rate. More than 40% of the total planted acreage has not reached bearing age, so the outlook for increased production in that country is threatening Florida products. Moreover, Mexico's juice processing capacity is also on the increase.

The proposed U.S.-Mexican Free-Trade Agreement presents a real and

unambiguous threat to the Florida citrus industry. A joint statement regarding the specifics of the adverse effect upon the citrus industry was filed on November 26, 1990 with the U.S. International Trade Commission. Florida citrus industry leaders strongly believe that its $8 billion investment in groves, not to mention the large value of juice extraction and evaporation assets, would be placed in dire straits, with catastrophic consequences, if the tariff on citrus products was removed. The removal of tariffs would have an immediate effect on prices in the short term, as well as profitability and viability in the long term.

CONCLUSION

In conclusion, the Florida Department of Agriculture and Consumer Services requests that resources be dedicated immediately to investigating and resolving the issues addressed herein. Any report to Congress on the proposed U.S. and Mexican Free-Trade Agreement must focus on the the items enumerated below.

1) National Health and Security

Our nation's health and security is dependent upon the availability of a safe and economical food supply. It is important to our nation's defense that we have a minimum domestic production of the fruits and vegetables essential to our health and safety. Current events in Iraq and Kuwait illustrate the vulnerability that can result from dependence upon a foreign source of an essential commodity. At certain times of the year, Florida provides 100% of the domestic production of tomatoes, beans, sweet corn, eggplant, bell peppers and watermelons.

2) Multiple Areas of Production

The availability of multiple sources of fruits and vegetables is of critical importance to the U.S. consuming public. A good example of the problems of single sourcing of produce occurred in December 1989, when an unusually severe freeze almost completely destroyed Florida's winter fruit and vegetable production. A carton of tomatoes that sold for $10 before the freeze sold for $26.50 after two weeks, $32 after four weeks, and reached a maximum of $50 per carton.

3) Food Safety and Pesticide Regulation

We must identify and correct problems with pesticide residues and other food safety concerns, such as microorganisms, at the point of origin in Mexico rather than in the U.S. Pesticides illegally used can often not be detected by sensitive analytical tests if several days have elapsed after harvesting. On-site pesticide, chemical and field sanitation regulations must be rigorous and equal for both countries. Field regulations of pesticide applications and farm worker safety must be equally guaranteed. Harmonization of chemical registration and maximum permitted chemical residue levels, as well as worker safety and exposure provisions between the U.S. and Mexico, must be achieved.

4) Grain Export Impact

The indirect, and negative, effect that U.S. subsidies of grain exports to Mexico has on the U.S. producers of winter fruits and vegetables must be considered. These subsidies provide incentives for the Mexican agricultural industry to divert resources from production of grain (which can be bought at a subsidized rate) to fruit and vegetable

production (which then generates a full return in foreign exchange).

5) Labor Cost Impact

The concerns of our society for the workforce in the United States are reflected in government mandates associated with the minimum wage, workman's compensation, worker safety, child labor, unemployment compensation, and Social Security. Both direct and indirect government-mandated labor costs must be considered. It is critical that labor issues, such as wages, safety and child labor restrictions, be added back to the agenda before any further talks proceed.

6) Environmental Concerns

Our society, through our government, has also promulgated stringent regulations toward the twin objectives of protecting our environment and our food supply from harmful chemicals and pesticides. Environmental protection must be considered equally by both countries.

7) Agriculture Policy Effects

The identification of all policies affecting traded commodities and their impact on the availability and price of such commodities must be examined.Compliance with these objectives entails additional production costs for our domestic producers. Although these costs have not been measured to date through an objective study, current producers in the industry believe them to be significant. The Florida fruit and vegetable industry receives no government subsidy or direct payment to compensate them for these government-mandated additions to the cost of production. The only assistance they receive is in the tariff schedules, which provide some protection from foreign producers who are not subject to these compliance costs of production.

Reciprocal agreements between the two governments must be negotiated regarding these aforementioned items before a non-restrictive trade agreement can be resolved.

8) Exemption Request

We respectfully request that winter-produced perishable agricultural commodities, and products made from them, be exempt from a FTA until such time as the concerns addressed in this document are resolved.

We appreciate the opportunity to submit these views and respectfully request your consideration of this document.

Chairman GIBBONS. Well, thank you, thank you, Mr. Commissioner. I will come back to you in a minute. I want to hear from the other panel members.

Mr. McClung.

STATEMENT OF JOHN McCLUNG, VICE PRESIDENT FOR GOVERNMENT RELATIONS, UNITED FRESH FRUIT AND VEGETABLE ASSOCIATION

Mr. MCCLUNG. Thank you, Mr. Chairman.

I am John McClung. I am the vice president of government relations for United Fruit and Vegetable Association, and I do want again to thank you for allowing me to testify for you today.

I have a summary statement that I would like to present.

Chairman GIBBONS. Yes, sir.

Mr. MCCLUNG. United is the national trade organization representing all sectors of the fresh produce industry. It was founded around the turn of the century. We have some 2,000 members in one capacity or another, all the way from the farmer, the producer, the grower, shipper, through the middle men, the brokers, the truckers, the wholesalers, food service operators, et cetera, through retailers. We also represent importers and exporters.

We are responsible for approximately 80 percent of the fresh produce that is marketed in the United States and much of it that is imported and exported. Obviously our membership base is extremely broad. Frankly, that makes the issue of a free trade agreement with Mexico both very important to us, and at the same time, difficult for us in some respects.

The fresh fruit and vegetable industry is divided over the potential cost and the benefits of a United States-Mexico FTA. The association's role, therefore, as we perceive it at present is simply to assure that all the issues are clearly identified and that the ramifications and consequences are explored and cataloged and very thoroughly understood before we proceed further.

The conventional wisdom in the industry is that an FTA with Mexico is likely to be successfully negotiated. I do not think that is any secret or any revelation to anybody. Many in our industry, especially those who produce fresh fruits and vegetables, feel they will be harmed. A lesser number feel they can see benefits.

In 1989 the United States imported over 586 million dollars' worth of fresh vegetables from Mexico and over 205 million dollars' worth of fresh fruit. Top vegetable imports in dollar amounts were tomatoes and cucumbers and peppers and onions and squash. Fruit included melons and grapes and bananas and strawberries.

In contrast, we exported only 9 million dollars' worth of fresh vegetables and 25 million dollars' worth of fresh fruit. We exported some potatoes and some onions and beans and pears and peaches and other stone fruit and true fruit. Now, I realize that very often it is pointed out that Mexican imports of agricultural products are in dollar terms more or less a wash with—imports and exports are more or less parallel. However, that is because most of what Mexico is importing is in the grains sector. So fruits and vegetables are not sharing in that market to the extent that it might seem.

I would like to point out that any comments that can be made today are speculation and prediction since there is no agreement yet. We cannot say for certain what the contents of that agreement might be. However, it is accurate to say that those United States producers of fruits and vegetables that can be readily grown in Mexico stand to lose the most. How could it be otherwise when an hour of labor north of the border costs about as much as a day's worth of labor south of that line? That is the principle—if there is a single issue of concern, it is that, the disparity in wages.

In order to understand this trade agreement's effects on the produce industry, one very important fact has to be established, and that is that the fruit and vegetable industry is not a single industry. It is instead many different industries cobbled in some cases loosely together, representing various commodities and various regions.

It is on a regional and commodity-specific basis that the costs and benefits of an FTA will be felt and therefore have to be analyzed. For example, fruit and vegetable producers in Florida or California or Texas fare the worst. Others, apple producers in the Pacific Northwest, for example, are excited about the opportunities for expanded markets.

To deal with this conflict, we would ask that you look for balance and ensure that the difficult issues are addressed as completely as possible.

In our effort to expand markets and increase economic growth for the United States and Mexico, we cannot allow any one industry or part of an industry to suffer grievous damage or extinction. We must ensure that the U.S. commitment to high standards is maintained. Our negotiations must understand what negative effects might impact various sectors of the produce industry, and provide appropriate mechanisms such as snapbacks and very long phase-in periods potentially to compensate for and to address the concerns.

We have made in our sector of the industry enormous investment in both time and money to assure consumer confidence in the safety of the food supply. We know that our ability to continue to market fresh fruits and vegetables is almost wholly dependent on public confidence in the products we grow and we sell.

We have had appreciable success in recent years in that regard, but public confidence is a fragile matter. It is the responsibility of Government to ensure that any negotiated agreements do not undermine that confidence in the safety of produce, domestic or imported.

The Government has to maintain and strengthen its programs to ensure that produce entering this country meets our very rigid safety requirements and it has to be understood that the safety of the food supply is not a negotiable matter. And Mexico must be made well aware that we will continue to vigorously enforce those standards we feel are appropriate.

While a Mexican FTA may provide opportunity, it also engenders grave misgivings, as I have already said. There are sound reasons why extremely close scrutiny should be given to the details of any United States-Mexico FTA. We have outlined some of those areas in which the fresh fruit and produce industry has concerns,

and we ask the subcommittee and the Congress, and the administration for that matter, to pay particular attention to the produce industry, weather, it be in the realm of exemptions or special consideration, but please watch us carefully.

We have so much at stake in this potential negotiation with Mexico. Ours is an extremely competitive industry. Jobs, businesses, the security of the food supply teeter every day on factors such as weather, demand, consumer preference, input availability, transportation. Variations of these factors of competition or any slippage in health standards would be detrimental to the U.S. fresh fruit and vegetable industry.

I have a longer statement, but I would leave it there and ask that it be included in the record please.

[The prepared statement follows:]

United Fresh Fruit and Vegetable Association

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COMMENTS

OF THE

UNITED FRESH FRUIT AND VEGETABLE ASSOCIATION

FOR THE PUBLIC HEARING OF

SUBCOMMITTEE ON TRADE

COMMITTEE ON WAYS AND MEANS

ON FEBRUARY 21, 1991

PROPOSED FREE TRADE AGREEMENT WITH MEXICO

Mr. Chairman, members of the Subcommittee, thank you for allowing me to testify before you today. I am John McClung, Vice President for Government Relations at United.

The United Fresh Fruit and Vegetable Association is the national trade organization representing all sectors of the fresh produce industry. Founded in 1904, its 1800 member companies represent grower/shippers, brokers, truckers and other transportation specialists, wholesalers, foodservice distributors and operators, retailers, importers, exporters, allied suppliers, and related educational and scientific organizations in the U.S. and abroad. Our members are responsible for the production and distribution of some 80% of the fresh produce marketed in the U.S., and are actively involved in all aspects of the global fresh produce business.

Obviously, our membership base is extremely broad, which makes the issue of free trade with Mexico both very important and, at the same time, difficult for us to address. The fresh fruit and vegetable industry is divided over the potential costs and benefits of a U.S.-Mexico Free Trade Agreement. In order to help clarify our industry's concerns, United devoted its 7th Annual International Trade Forum (held February 2, 1991) to the issue of a U.S.-Mexico FTA.

The Association's role at present is to assure that all issues are clearly identified and that the ramifications and consequences are explored and catalogued.

I would like simply to present today some of the discussions and conclusions which were brought out during that meeting of over 250 produce industry leaders.

The conventional wisdom in our industry is that an FTA with Mexico is likely to be successfully negotiated. Many in our industry feel they will be harmed, a lesser number feel they will benefit. In 1989 the U.S. imported over $586 million worth of fresh vegetables from Mexico and over $205 million of fresh fruit. The top vegetable imports in 1989 (in dollar amount) were tomatoes, cucumbers, peppers, onions, and squash. The top fruit imports were cantaloup, grapes, watermelon, bananas and strawberries. In contrast the U.S. exported only $9 million of fresh vegetables and $25 million of fresh fruit to Mexico. The top vegetable exports in 1989 were potatoes, onions, beans, garlic, and lettuce. The top fruit exports were pears, peaches, apples, plums, and citrus. These

figures are included in a table at the end of our written comments.

Before I go any further, I would like to point out that all of my comments today are speculation and prediction. Since there is no agreement yet, we cannot say for certain what the result will be. However, it is accurate to say that those U.S. producers of fruits and vegetables that can readily be grown in Mexico stand to lose the most. How could it be otherwise when an hour of labor north of the border costs as much as a day of labor south of that line?

In order to understand this trade agreement's affects on the produce industry, one very important fact must be established: The fresh fruit and vegetable industry is not a single industry , but many different industries cobbled together, representing various commodities and regions. It is on a regional and commodity specific basis that the costs and benefits of an FTA will be felt, and therefore must be analyzed. For example, fruit and vegetable producers in Florida, California and Texas fear the worst, tree fruit producers in the Pacific Northwest are excited about the opportunities for an expanded market.

To deal with this conflict, we must look for balance and must assure that difficult issues are addressed as thoroughly as possible. In our efforts to expand markets and increase economic growth for the U.S. and Mexico, we cannot allow any one industry (or part of an industry) to suffer grievous damage or extinction. We also must ensure that the U.S. commitment to high standards is maintained. Our negotiators must understand what negative effects might impact various sectors of the produce industry and provide appropriate mechanisms (such as snapbacks, and very long and gradual phase-in periods).

The U.S. fresh fruit and vegetable industry, and all agriculture, has made an enormous investment in both time and money to assure consumer confidence in the safety of the food supply. We have had appreciable success in recent years, but public confidence is fragile. It is the responsibility of government to ensure that any negotiated agreements do not undermine that confidence in the safety of produce, domestic or imported. The U.S. government must maintain and strengthen its programs which ensure that produce entering this country meets those safety standards which we have established. The safety of our food supply cannot be negotiated, and Mexico must be made well aware that we will continue to vigorously enforce our standards.

Transportation plays a major role in the fresh fruit and vegetable industry. Any negotiations need to explore the possibilities of freer transportation across the border.

While a Mexican FTA may provide opportunity, it also engenders grave misgivings. There are very sound reasons why extremely close scrutiny should be given to the details of any U.S.-Mexico FTA. We have outlined some of those areas in which the fresh fruit and vegetable industry has concerns. We ask the Subcommittee, the Congress, and the Administration to pay particular attention to the produce industry, which has so much at stake in any agreement with Mexico.

Ours is an extremely competitive industry. Jobs, businesses and futures teeter every day on factors such as weather, demand and consumer preference, input availability, and transportation. Variations in these factors of competition or any slippage in health standards could be detrimental to the U.S. fresh fruit and vegetable industry.

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AREA/COUNTRY OF DESTINATION AND COMMODITIES EXPORTED		UNITS	CUMULATIVE TO DATE QUANTITY 01/88-12/88	CUMULATIVE TO DATE QUANTITY 01/89-12/89	CUMULATIVE TO DATE VALUE 01/88-12/88	CUMULATIVE TO DATE VALUE 01/89-12/89	DECEMBER QUANTITY 1988	DECEMBER QUANTITY 1989	DECEMBER VALUE 1988	DECEMBER VALUE 1989
Mexico										
OG JU,CNC,FZ,>3.	2009110060	KL	0	15	0	6,093	0	0	0	0
ORG JU,UNFR,N/FZ	2009194000	KL	0	164	0	98,560	0	6	0	4,002
GRPFRT JU,WHT/CNC	2009202000	KL	0	7	0	2,434	0	0	0	0
GRPFRT JU,RES,FZ	2009204020	KL	0	22	0	16,134	0	0	0	0
GRPFRT JU,WT/FZ	2009204040	KL	0	63	0	41,700	0	0	0	0
CT JU,WT/CNC,RES	2009303000	KL	0	46	0	8,983	0	0	0	0
LEMON JU,CNC,WFZ	2009306040	KL	0	16	0	9,926	0	0	0	0
CT JU,CNC,RESOI	2009308000	KL	0	48	0	34,224	0	0	0	0
PINAPPL JU,N/CNC	2009402000	KL	0	41	0	24,830	0	0	0	0
PINE JU UNF RS/F	2009404000	KL	0	153	0	104,728	0	15	0	10,120
TOMATO JUICE	2009500000	KL	0	442	0	162,710	0	32	0	12,265
GRAPE JU, WT,CNC	2009600020	KL	0	116	0	24,570	0	0	0	0
GRAPE JU,CNC,WFZ	2009600060	KL	0	344	0	192,714	0	0	0	0
APPLE JUICE,UNFR	2009700000	KL	0	503	0	327,509	0	8	0	5,159
JUICE,RES,UNFRM	2009800000	KL	0	896	0	511,633	0	45	0	18,426
MIX OF VEG JUICE	2009902000	KL	0	448	0	179,778	0	30	0	11,441
MIX FRT JU,UNFRM	2009904000	KL	0	768	0	275,204	0	0	0	0
SUBTOTAL.....		KL	2,056	4,154	784,591	2,045,955	197	135	85,535	61,413
FRESH VEG EXC POTATO										
ASPARAGUS,FR/CH	1351800	MT	24	0	32,729	0	0	0	0	0
BEANS,FR/CH	1352100	MT	1,695	0	1,031,487	0	115	0	91,727	0
BROCCOLI,FR/CH	1352300	MT	125	0	64,056	0	5	0	5,450	0
BRSSL SPRTS,F/CH	1352500	MT	24	0	13,654	0	0	0	0	0
CABBAGE,FR/CH	1352700	MT	21	0	10,240	0	9	0	7,346	0
CARROTS, FR/CH	1352900	MT	17	0	6,705	0	0	0	0	0
CAULFLWR, FR/CH	1353100	MT	75	0	44,455	0	2	0	3,000	0
CELERY, FR/CH	1353300	MT	1,559	0	641,875	0	181	0	79,246	0
RTS,TBR,ETC,F/CH	1353500	MT	842	0	394,024	0	101	0	66,550	0
CORN,SWT, FR/CH	1353700	MT	242	0	118,604	0	7	0	7,942	0
CUCUMBERS,FR.CH	1353900	MT	100	0	33,118	0	17	0	5,130	0
GARLIC,FR/CH	1354000	MT	45	0	48,170	0	0	0	0	0
LETTUCE, FR/CH	1354300	MT	1,549	0	413,716	0	87	0	34,510	0
ONION,X SET,FR/C	1354500	MT	2,614	0	504,714	0	260	0	49,116	0
PEPPERS, FR/CH	1354700	MT	154	0	36,636	0	0	0	0	0
TOMATOE,FRSH,CHI	1355300	MT	629	0	331,315	0	361	0	189,900	0
VEGS,FSH OR CHLD	1355900	MT	762	0	277,312	0	29	0	8,946	0
NONLGHC VEG,X FL	1406100	MT	38	0	38,724	0	0	0	0	0
MUSHROOMS,FRESH	1441000	MT	2	0	5,460	0	0	0	0	0

AREA/COUNTRY OF DESTINATION AND COMMODITIES EXPORTED		UNITS	CUMULATIVE TO DATE QUANTITY 01/88-12/88	CUMULATIVE TO DATE QUANTITY 01/89-12/89	CUMULATIVE TO DATE VALUE 01/88-12/88	CUMULATIVE TO DATE VALUE 01/89-12/89	DECEMBER QUANTITY 1988	DECEMBER QUANTITY 1989	DECEMBER VALUE 1988	DECEMBER VALUE 1989
Mexico										
TOMATOES,FR/CH	0702000000	MT	0	859	0	439,918	0	11	0	7,200
ONION SETS,FR/CH	0703102000	MT	0	1,461	0	738,659	0	122	0	67,622
ONIONS/SHALL,F/C	0703105000	MT	0	3,878	0	947,133	0	193	0	53,540
GARLIC, FR/CH	0703200000	MT	0	915	0	859,783	0	308	0	302,766
CAULFLWR,FR/CH	0704100000	MT	0	77	0	53,180	0	0	0	0
BRSSL SPRTS,F/CH	0704200000	MT	0	19	0	10,976	0	0	0	0
CABBAGE, FR/CH	0704902000	MT	0	252	0	60,802	0	0	0	0
BROCCOLI FR/CH	0704904020	MT	0	130	0	74,764	0	0	0	0
KOHLRABI FR/CH	0704904040	MT	0	2	0	1,600	0	0	0	0
LETTUCE, FR/CH	0705110000	MT	0	2,363	0	688,841	0	0	0	0
LETTUCE,X H,F/CH	0705190000	MT	0	999	0	288,494	0	9	0	2,612
CHCRY,X WTLF,F/C	0705290000	MT	0	17	0	4,611	0	0	0	0
CARROTS, FR/CH	0706103000	MT	0	484	0	253,912	0	65	0	45,162
SLD BTS,RDSRS,FC	0706900000	MT	0	20	0	19,291	0	8	0	7,133
CUCMBERS,FR/CH	0707000000	MT	0	25	0	9,036	0	15	0	4,956
PEAS, FR/CH	0708100000	MT	0	305	0	241,332	0	65	0	41,170
BEANS, FR/CH	0708200000	MT	0	60	0	50,554	0	25	0	21,068
LEGUM VEG,FR.CH	0708900000	MT	0	301	0	251,566	0	60	0	69,732
GL ARTICHOKE,F/C	0709100000	MT	0	21	0	18,748	0	13	0	13,360
ASPARAGUS, FR/CH	0709200000	MT	0	28	0	62,175	0	0	0	0
EGGPLANT,FR/CH	0709300000	MT	0	6	0	5,130	0	0	0	0
CELERY, FR/CH	0709400000	MT	0	1,201	0	416,062	0	43	0	12,380
MUSHROOMS, FR/CH	0709510000	MT	0	17	0	38,930	0	0	0	0
PEPPERS, FR/CH	0709600000	MT	0	451	0	183,099	0	23	0	16,050
CORN,SWT, FR/CH	0709904070	MT	0	353	0	178,940	0	6	0	5,200
VEG,NESOI,FR/CH	0709905000	MT	0	445	0	283,627	0	98	0	93,494
VEG/MIX,VEG/NES	0712909000	MT	0	142	0	371,288	0	0	0	0
SW POTATO,FR,DRD	0714200000	MT	0	59	0	30,356	0	0	0	0
RTS/TBRS,NES,F/D	0714900000	MT	0	292	0	168,355	0	0	0	0
SUBTOTAL.....		MT	10,517	15,182	4,046,994	6,751,162	1,174	1,064	548,863	763,445
POTATOES										
POTATO,WH,I,FR,S	1354920	MT	335	0	54,793	0	51	0	15,200	0
POTATO,W,I,FR,NS	1354940	MT	2,807	0	737,873	0	217	0	79,693	0
POTATO,SD,FR/CH	0701100000	MT	0	1,973	0	424,437	0	0	0	0
POTATO,X SD,F/CH	0701900000	MT	0	4,910	0	1,872,420	0	102	0	25,111
SUBTOTAL.....		MT	3,142	6,883	792,666	2,296,857	268	102	94,893	25,111
Total Fresh Vegetables					#4,839,660	#9,048,019				

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Mexico										
FRESH FRUITS, CITRUS										
GRAPEFRUIT,FRESH	1471500	MT	128	0	55,890	0	0	0	0	0
LEMONS,FRESH	1471900	MT	917	0	311,404	0	271	0	119,633	0
TANGERINES,FRESH	1473120	MT	19	0	10,611	0	0	0	0	0
ORANGES, FR, NEC	1473140	MT	2,518	0	828,932	0	56	0	18,010	0
CITRUS FR,FSH,NC	1473500	MT	298	0	148,394	0	3	0	2,570	0
TEMPLES, FR/DRD	0805100020	MT	0	134	0	115,034	0	0	0	0
ORANGES,NES,FR/D	0805100040	MT	0	1,267	0	825,062	0	0	0	0
MANDARINES,FR/DR	0805200040	MT	0	32	0	10,250	0	0	0	0
LEMONS (CITRUS L	0805302000	MT	0	1,851	0	556,205	0	279	0	78,554
LIMES,FR/DRIED	0805304000	MT	0	24	0	24,166	0	18	0	20,000
GRAPEFRUIT,FR/DR	0805400000	MT	0	298	0	130,646	0	0	0	0
CITRUS FRS,FR NS	0805900000	MT	0	22	0	2,650	0	0	0	0
SUBTOTAL.....		MT	3,880	3,628	1,355,231	1,664,013	330	297	140,213	98,554
FRESH FRUITS, DECIDI										
APPLES,FRESH	1461000	MT	7,596	0	2,891,829	0	495	0	241,532	0
CHERRIES,SWEET,F	1468520	MT	71	0	81,747	0	4	0	3,858	0
GRAPES,FRESH	1476500	MT	1,331	0	768,821	0	355	0	195,006	0
PEACHES,NCTRNS,F	1487500	MT	3,224	0	1,392,332	0	83	0	53,302	0
PEARS,FRESH	1488500	MT	3,264	0	1,266,970	0	464	0	213,689	0
PRUNES & PLUMS,F	1491700	MT	918	0	480,822	0	71	0	40,695	0
GRAPES, FRESH	0806100000	MT	0	1,553	0	1,139,586	0	216	0	161,768
APPLES, FRESH	0808100000	MT	0	9,218	0	4,755,369	0	766	0	384,197
PEARS & QUINCE F	0808200000	MT	0	20,784	0	8,901,609	0	2,673	0	1,176,492
APRICOTS, FRESH	0809100000	MT	0	1,220	0	940,365	0	7	0	5,500
CHERRIES,SW,FRSH	0809200020	MT	0	96	0	123,072	0	20	0	30,372
CHERRIES,TART,FR	0809200040	MT	0	4	0	2,065	0	0	0	0
PEACHES,NCTRNS,F	0809300000	MT	0	9,677	0	4,791,475	0	381	0	231,583
PLUMS,PRUNE,SL,F	0809400000	MT	0	2,905	0	1,766,237	0	181	0	134,176
SUBTOTAL.....		MT	16,404	45,457	6,882,521	22,419,778	1,472	4,244	748,082	2,124,088
FRESH FRUIT, OTHER										
AVOCADOS,FRESH	1463500	MT	3	0	3,575	0	0	0	0	0
STRAWBERRIES,FR	1465500	MT	29	0	45,738	0	0	0	0	0
BERRIES,FRSH,NEC	1466500	MT	54	0	44,731	0	30	0	13,078	0
KIWIFRUIT,FRESH	1493050	MT	70	0	84,050	0	52	0	16,000	0
ED FRUIT,NSPF,FR	1493060	MT	334	0	193,591	0	0	0	0	0

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Mexico									
PINEAPPLES,FR/DR 0804300000	MT	0	54	0	54,161	0	0	0	0
GV,MNG,MNGST F/D 0804500000	MT	0	1	0	2,160	0	0	0	0
PAPAYAS (PAPWS)F 0807200000	MT	0	16	0	12,674	0	0	0	0
STRAWBERRIES, FR 0810100000	MT	0	298	0	347,276	0	0	0	0
BERRIES,FRSH,NEC 0810200000	MT	0	42	0	20,220	0	0	0	0
CRANBERRY,NES,FR 0810400050	MT	0	13	0	6,628	0	0	0	0
KIWIFRUIT,FRESH 0810902060	MT	0	111	0	112,127	0	27	0	28,356
FRUITS,FRESH,NEC 0810905000	MT	0	279	0	209,420	0	57	0	74,406
SUBTOTAL.....	MT	490	814	371,685	764,666	82	84	29,078	102,762
FRESH MELONS									
CANTALOUPES,FRSH 1481700	MT	34	0	10,268	0	0	0	0	0
WATERMELON,FRESH 1482000	MT	198	0	19,800	0	59	0	5,000	0
MELONS,FRESH,NEC 1482700	MT	19	0	6,219	0	0	0	0	0
CANTALOUPES,FRSH 0807101500	MT	0	408	0	120,725	0	52	0	17,417
WATERMELON,FRESH 0807103500	MT	0	105	0	13,866	0	39	0	5,156
MELON,NESOI,FRSH 0807109000	MT	0	105	0	33,333	0	33	0	6,860
SUBTOTAL.....	MT	251	618	36,287	167,924	59	124	5,000	29,433
FRUIT, FROZEN									
BERRIES,FRZ,NEC 1497500	MT	21	0	13,740	0	0	0	0	0
CHERRIES,SWT,FRZ 1498520	MT	26	0	33,820	0	0	0	0	0
FRUITS,FRZ,NEC 1499000	MT	80	0	74,575	0	2	0	1,813	0
FRT,IN BRINE,NEC 1510500	MT	5	0	2,052	0	0	0	0	0
STRAWBERRIES,FRZ 0811100000	MT	0	194	0	105,325	0	0	0	0
BERRIES,FRZ,NEC 0811200000	MT	0	6	0	6,912	0	0	0	0
CHERRIES,SWT,FRZ 0811906040	MT	0	88	0	98,735	0	0	0	0
FRUIT/NUTS,NEC 0811907000	MT	0	49	0	81,576	0	3	0	3,353
SUBTOTAL.....	MT	132	337	124,187	292,548	2	3	1,813	3,353
FRUIT,CANNED									
APRICOT,PREP,PRS 1511000	MT	9	0	7,615	0	2	0	1,922	0
CHRY,MRSNG,PR,PS 1512000	MT	32	0	51,470	0	0	0	0	0
CHERRY,SWT,PR,PS 1512520	MT	16	0	28,480	0	0	0	0	0
BERRIES,PREP,PRS 1513000	MT	15	0	27,058	0	0	0	0	0
GRAPEFRUIT,PR,PS 1514020	MT	17	0	6,656	0	0	0	0	0
CTR FR,ETC,PR,PS 1514040	MT	22	0	15,274	0	13	0	11,859	0
PEACH/NECT PR,PS 1516000	MT	109	0	78,365	0	2	0	2,667	0
PEARS,PREP,PRES 1517000	MT	8	0	6,500	0	0	0	0	0
Total Fresh Fruit				$ 8,645,724	$25,016,381				

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Mexico									
FRUIT JU NT,FRZ 2009404040	KL	0	54	0	43,921	0	0	0	0
TOM JU <7% DR,WS 2009500000	KL	0	4	0	2,700	0	0	0	0
GRP JU,MUST,NCON 2009800020	KL	0	7	0	6,485	0	0	0	0
GRP JU,MUST,C,FZ 2009600040	KL	0	411	0	241,010	0	173	0	68,860
GRP JU,MST,C,NFZ 2009600060	KL	0	194	0	229,614	0	0	0	0
APPLE JUICE, UNF 2009700000	KL	0	11,210	0	1,910,839	0	746	0	107,663
PEAR JUICE, UNF 2009852000	KL	0	53	0	45,906	0	3	0	2,574
FRT JU NES UNF 2009806000	KL	0	285	0	242,995	0	0	0	0
MANDARIN FREP/PS 2009806090	KL	0	410	0	337,664	0	79	0	61,660
JUICE,VEG,UNFR 2009808000	KL	0	1	0	5,250	0	0	0	0
FRUIT JU MIX UNF 2009904000	KL	0	45	0	49,254	0	19	0	24,973
SUBTOTAL.....	KL	238,016	191,622	78,437,990	62,515,114	10,772	10,052	3,155,590	3,189,922
FRSH VEG,EXCPT POTAT									
ASPARAGUS,FR,CH, 1350300	MT	29	0	38,490	0	1	0	1,200	0
ASPARAGUS,FR,CH, 1350520	MT	12,116	0	15,114,835	0	120	0	212,694	0
BEANS,NSP,FR/FZ 1351600	MT	11,127	0	8,748,401	0	1,101	0	1,122,585	0
BEETS,X SUG,F/FZ 1352000	MT	200	0	61,979	0	45	0	20,131	0
CABBAGE,FR/CH/FZ 1353000	MT	638	0	164,169	0	247	0	44,465	0
CARROTS, NES 1354200	MT	8,860	0	1,652,048	0	748	0	97,016	0
CLFLWR,6/5-10/15 1355000	MT	2	0	1,090	0	0	0	0	0
CLFLWR,10/16-6/4 1355100	MT	4,802	0	1,013,969	0	663	0	141,974	0
CELERY 4/15-7/31 1356000	MT	1,192	0	239,301	0	0	0	0	0
CELERY 8/1-4/14 1356100	MT	6,095	0	1,766,825	0	176	0	29,265	0
CHCKPEA,GARB,F/F 1357000	MT	154	0	54,851	0	0	0	0	0
CORN ON COB,FCFZ 1357500	MT	5,227	0	1,755,031	0	462	0	40,575	0
COWPEA,FR/FS,NES 1358100	MT	4,612	0	1,230,525	0	126	0	43,407	0
CUCMBR 12/1-2/LS 1359000	MT	125,578	0	28,240,681	0	25,418	0	7,125,612	0
CUCMBR,3/1-4/30 1359500	MT	40,175	0	7,053,232	0	0	0	0	0
CU5/1-6/309/1-11 1359700	MT	17,406	0	5,622,910	0	30	0	3,778	0
CU,7/1-8/31 F/CH 1359900	MT	1,324	0	464,026	0	0	0	0	0
DASHEEN,FR,CH,FZ 1360000	MT	3	0	1,470	0	3	0	1,470	0
ENDIVE/MHT CHIC 1361000	MT	69	0	78,867	0	0	0	0	0
EGGPLNT,FR/CH/FZ 1362000	MT	4,582	0	2,644,384	0	0	0	0	0
EGGPLT 12/1-3/31 1362200	MT	12,058	0	5,653,891	0	1,467	0	687,005	0
GARLIC,FR,CHILLE 1363000	MT	12,183	0	6,799,272	0	1	0	2,655	0
LENTILS,FR/CH/FZ 1365000	MT	20	0	11,000	0	20	0	11,000	0
LETTUCE6/1-10/31 1366000	MT	77	0	39,089	0	0	0	0	0
LETTUCE11/1-5/31 1366100	MT	15,216	0	9,274,084	0	2,014	0	673,811	0

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Mexico										
LUPINES,FR/CH/FZ	1367000	MT	6	0	1,515	0	0	0	0	0
OKRA,F/C/F,7-10	1367700	MT	8,776	0	1,995,054	0	0	0	0	0
OKRA,F/C/F,11-6	1367900	MT	7,696	0	2,215,690	0	440	0	107,310	0
ONION SETS,FR/FZ	1369000	MT	64	0	60,670	0	3	0	2,773	0
ONION,FRL,LS 5/8	1369200	MT	51	0	16,037	0	4	0	1,017	0
ONIONS, NES	1369300	MT	160,688	0	71,670,868	0	9,368	0	8,826,903	0
PEA,FR,7/1-9/30	1369500	MT	73	0	68,935	0	0	0	0	0
SNW PEA F/C 10/6	1370405	MT	1,802	0	1,318,258	0	183	0	188,188	0
PEA NES F/C 10/6	1370410	MT	2,946	0	2,844,681	0	190	0	222,021	0
PEPPR,CHILI,FCFZ	1371010	MT	34,119	0	21,511,550	0	2,395	0	1,720,768	0
PEPPRS,NES,FCHFZ	1371020	MT	81,503	0	32,752,875	0	5,697	0	4,454,850	0
RADISHE,FR/CH/FZ	1371000	MT	9,576	0	5,372,702	0	1,668	0	1,018,542	0
SQUASH,FR,CH,FRZ	1375000	MT	61,606	0	31,501,398	0	8,465	0	4,119,786	0
TMJ/1-7/1469/1-1	1376000	MT	190,995	0	74,448,858	0	0	0	0	0
TOMATO 7/15-8/31	1376200	MT	38,218	0	14,843,691	0	0	0	0	0
TOMATO 11/15-2/L	1376300	MT	133,520	0	62,490,929	0	6,244	0	2,919,144	0
TURNIP/RUTABAGAS	1376600	MT	154	0	37,452	0	4	0	1,556	0
BRUSSEL SPT,F,CH	1377120	MT	5,090	0	1,737,316	0	38	0	9,991	0
CHAYOTE,FRESH	1377500	MT	2,757	0	1,383,804	0	222	0	126,766	0
JICAMAS-FR,CHLD	1377900	MT	8,161	0	2,556,206	0	742	0	252,354	0
PARSNIP,FR/CH/FZ	1378000	MT	11	0	1,966	0	0	0	0	0
PMPKN,BRDFRT,F/F	1379300	MT	793	0	279,280	0	102	0	38,456	0
BROCCOLI,FR,CHLD	1379730	MT	15,680	0	4,219,706	0	1,455	0	421,640	0
OTHER VEG FR, CH	1379775	MT	5,234	0	3,492,965	0	903	0	656,434	0
BROC,CAUL,OKRA,F	1380520	MT	2,508	0	700,983	0	39	0	9,461	0
OTH VEG-CT,SL,FR	1384610	MT	59	0	79,118	0	0	0	0	0
TMJ/1-1/1469/1-1	0702002000	MT	0	202,222	0	112,205,324	0	0	0	0
TM 7/15-8/31	0702004000	MT	0	29,466	0	9,666,958	0	0	0	0
TOMATO 11/15-2/L	0702006000	MT	0	154,227	0	100,443,303	0	20,340	0	13,455,973
ONION SETS,FR/CH	0703102000	MT	0	49	0	12,579	0	0	0	0
PEARL ONIONS NOT	0703103000	MT	0	7	0	1,560	0	0	0	0
ONION/SHALL,F/CH	0703104000	MT	0	143,443	0	57,817,406	0	10,972	0	5,783,236
GARLIC,FRSH/CHLD	0703200000	MT	0	8,219	0	5,521,075	0	0	0	2,215
LEEKS & OTHER AL	0703900000	MT	0	671	0	367,285	0	101	0	53,372
CLFLWR,6/5-10/15	0704102000	MT	0	170	0	114,556	0	0	0	0
CLFLWR,10/16-6/4	0704104000	MT	0	6,691	0	1,483,704	0	1,692	0	382,134
CAULIFLOWER/HEAD	0704106000	MT	0	329	0	202,449	0	20	0	13,625
BRUSSEL SPT,F,CH	0704200000	MT	0	6,733	0	2,236,625	0	355	0	134,962
CABBAGE,FR/CH	0704902000	MT	0	3,169	0	502,660	0	2,170	0	342,162

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Mexico										
BROCCOLI FRSH/CH	0704904020	MT	0	11,417	0	2,873,367	0	1,220	0	458,682
KOHLRABIE, NESOI	0704904040	MT	0	5,192	0	2,980,217	0	1,020	0	483,767
HD LET,6/1-10/31	0705112000	MT	0	1	0	1,239	0	0	0	0
HD LETT11/1-5/31	0705114000	MT	0	12,989	0	4,274,604	0	481	0	401,873
LETTUCE6/1-10/31	0705192000	MT	0	12	0	3,059	0	0	0	0
LETTUCE11/1-5/31	0705194000	MT	0	10,084	0	3,637,270	0	1,469	0	309,372
CHCRY X WTLF F/C	0705290000	MT	0	197	0	163,839	0	44	0	23,091
CARROT,RED SIZE	0706100500	MT	0	75	0	48,260	0	5	0	2,829
CARROTS,<10CM LG	0706101000	MT	0	109	0	27,055	0	10	0	2,325
CARROT,>10CM	0706102000	MT	0	15,760	0	3,399,727	0	294	0	32,800
TURNIPS,FRSH/CH	0706104000	MT	0	65	0	16,977	0	0	0	0
RADISHES,FR/CH	0706902000	MT	0	10,008	0	5,865,777	0	2,066	0	1,205,085
BEETS & HRSERDSH	0706903000	MT	0	467	0	193,169	0	65	0	30,411
ROOTS,ED,NESOI	0706904000	MT	0	1	0	1,142	0	0	0	0
CUCMBR,12/1-2/L	0707002000	MT	0	130,387	0	56,769,250	0	37,314	0	13,840,146
CUCMBR,3/1-6/30	0707004000	MT	0	43,664	0	18,510,926	0	0	0	0
CU5/1-6/309/1-11	0707005000	MT	0	17,562	0	8,381,077	0	0	0	0
CUCMBR,7/1-8/31	0707006000	MT	0	2,532	0	988,145	0	0	0	0
PEAS,7/1-9/30	0708102000	MT	0	34	0	49,375	0	0	0	0
PEAS,F/C 10/6	0708104000	MT	0	4,078	0	6,980,227	0	598	0	1,302,943
BNS,LMA11/1-5/31	0708201000	MT	0	50	0	20,781	0	19	0	10,409
COWPEAS,OT,FR/CH	0708202000	MT	0	2,542	0	634,830	0	0	0	0
BLACKEYE PEAS	0708209000	MT	0	12,743	0	12,730,936	0	2,103	0	2,250,313
CHICKPEA,GARB,F/C	0708900500	MT	0	41	0	20,500	0	0	0	0
LEGUMINOUS VEGET	0708904000	MT	0	145	0	200,855	0	1	0	2,874
GLOBE ARTICHOKES	0709100000	MT	0	3	0	3,352	0	0	0	0
ASPRG,9/15-11/15	0709201000	MT	0	65	0	74,990	0	10	0	6,398
ASPRS,NES,FR/CH	0709209000	MT	0	12,292	0	14,203,362	0	208	0	395,036
EGGPLNT4/1-11/30	0709302000	MT	0	3,125	0	1,741,570	0	0	0	0
EGGPLT,12/1-3/31	0709304000	MT	0	13,883	0	7,832,706	0	2,073	0	1,866,916
CELERY FR/CH	0709402000	MT	0	14	0	4,637	0	0	0	0
CELERY,4/15-7/31	0709404000	MT	0	1,290	0	320,076	0	0	0	0
CELERY,8/1-4/14	0709406000	MT	0	12,118	0	3,226,967	0	674	0	128,764
MUSHROOMS,FR/CH	0709510000	MT	0	1	0	15,594	0	1	0	7,142
CHILI,FRSH/CHLD	0709600020	MT	0	29,157	0	24,831,707	0	2,170	0	2,222,299
PEPPRS NES,FR/CH	0709600040	MT	0	101,416	0	62,238,875	0	11,782	0	7,491,909
SPINACH, NEW ZEA	0709700000	MT	0	3,028	0	1,722,715	0	577	0	290,723
JCHS,FRSH,BRDFRT	0709900500	MT	0	10,661	0	3,242,565	0	958	0	308,359
CHAYOTE,FR/CH	0709901000	MT	0	2,546	0	1,455,075	0	183	0	97,320

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Mexico										
OKRA,7/1-10/31	0709901300	MT	0	16,549	0	3,670,152	0	6	0	2,715
OKRA,F/C NV-JN	0709901600	MT	0	6,646	0	1,889,350	0	303	0	99,694
SQUASH,FRSH/CHLD	0709902000	MT	0	76,674	0	35,554,684	0	12,182	0	6,103,797
FDDLHD GRS, F/CH	0709903000	MT	0	3	0	1,299	0	3	0	1,299
SWEET CORN,FR/CH	0709904070	MT	0	6,109	0	2,357,895	0	604	0	216,532
OTH VEG- FR/CH	0709904080	MT	0	5,935	0	2,649,277	0	1,227	0	573,219
SUBTOTAL.....		MT	1,055,811	1,137,066	435,326,921	586,372,936	70,804	115,320	35,356,203	60,336,721
Total Fresh Vegetables					# 435,328,317	#586,372,936				
POTATOES										
POTATO,OTHER OV	1372780	MT	24	0	2,396	0	0	0	0	0
SUBTOTAL.....		MT	24	0	2,396	0	0	0	0	0
VEGTBLS,PREP OR PRES										
BNS,PR,X SOYBEAN	1412000	MT	334	0	237,234	0	0	0	0	0
SAUERKRAUT	1412500	MT	2	0	1,575	0	0	0	0	0
ONION,BRINE,PKLD	1414500	MT	7	0	1,980	0	0	0	0	0
PIMIENTO,>80 OZ	1416040	MT	182	0	91,160	0	0	0	0	0
TOMATO PASTE	1416520	MT	19,105	0	11,596,649	0	0	0	0	0
TOMATO SAUCE	1416540	MT	102	0	60,828	0	3	0	6,600	0
TOM,PREP,X SAUCE	1416600	MT	32	0	17,656	0	0	0	0	0
ARTICHOKE,BRINE	1417600	MT	27	0	46,712	0	0	0	0	0
CUCUMBERS,BRINE	1417720	MT	2,988	0	1,003,083	0	0	0	0	0
OTH VEG IN BRINE	1417760	MT	34,530	0	20,976,563	0	2,555	0	1,585,607	0
CORN-CANNED	1418300	MT	127	0	90,911	0	0	0	0	0
PALM HEARTS	1418500	MT	1	0	4,250	0	0	0	0	0
CEG-NEC,FROZEN	1418900	MT	100	0	94,600	0	0	0	0	0
ARTICHOKES,PR,PS	1419200	MT	31	0	18,026	0	0	0	0	0
ASPARAGUS,PR,PRS	1419300	MT	311	0	310,880	0	0	0	0	0
VEG,PR,PS,PEPPER	1419820	MT	2,262	0	2,165,773	0	71	0	78,406	0
VEG,PREP,PRES,OT	1419840	MT	3,911	0	3,308,013	0	342	0	340,043	0
MSHRM,WH,E,LS90Z	1442027	MT	8	0	16,744	0	0	0	0	0
MSHRM,MSPP,LS90Z	1442037	MT	309	0	682,529	0	0	0	0	0
MSHRM,WH,E,GR90Z	1442043	MT	1	0	2,244	0	0	0	0	0
PEPPER,GRND ETC	1614400	MT	43	0	72,961	0	12	0	8,119	0
BEANS REDUCED IN	0710224000	MT	0	588	0	272,593	0	54	0	31,311
CUCUMB,PRES/INED	0711400000	MT	0	1,980	0	518,418	0	82	0	30,274
LEGUM,VEG,INED	0711902000	MT	0	443	0	178,804	0	0	0	0
VEG,NES,PS,INED	0711906000	MT	0	2,074	0	1,192,949	0	204	0	98,386
PEPPER,GRND,NES	0904207000	MT	0	2,715	0	1,199,501	0	345	0	127,766

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Mexico										
CITRUS, FRESH										
GPFT-FR ENT., OCT	1470700	MT	11	0	10,652	0	0	0	0	0
FRESH LEMONS	1471900	MT	12	0	7,776	0	0	0	0	0
LIMES,FR/BRINE	1472200	MT	41,517	0	5,688,659	0	2,989	0	369,997	0
ORG,MAND,TANG,FR	1473120	MT	13,308	0	3,009,866	0	4,853	0	1,170,000	0
ORANGES,NES,FRSH	1473140	MT	7,501	0	1,404,939	0	122	0	25,814	0
ORG,NESOI,FR/DRD	0805100040	MT	0	980	0	249,536	0	269	0	64,494
TANGERINES,FR/DR	0805200020	MT	0	11,909	0	3,167,219	0	4,259	0	1,224,720
LIMES (CITRUS AU	0805304000	MT	0	35,645	0	4,729,193	0	2,934	0	326,889
GPFT-F,11/1-7/31	0805408000	MT	0	3	0	3,072	0	0	0	0
CITRUS FRUIT, FR	0812902000	MT	0	810	0	311,556	0	53	0	28,000
FRUIT NESOI & NU	0812909000	MT	0	187	0	115,200	0	16	0	14,378
SUBTOTAL.....		MT	62,349	49,534	10,121,892	8,575,776	7,964	7,531	1,565,811	1,660,481
FRESH FRUITS,DECIDS										
APPLES,FRESH	1461000	MT	143	0	70,848	0	0	0	0	0
APRICOT,FR/BRINE	1462000	MT	3	0	7,641	0	0	0	0	0
GRAPES,FR.NOTHSE	1476000	MT	55	0	68,672	0	0	0	0	0
GPS,FR 4/1-6/30	1476300	MT	29,979	0	40,075,097	0	0	0	0	0
GPS,FR,EX MH	1476400	MT	2,954	0	3,635,766	0	0	0	0	0
PEACH,FR,IN BRN	1487200	MT	1,374	0	1,25[illegible],464	0	0	0	0	0
FR PEAR,OTH TIME	1488200	MT	12	0	2,152	0	0	0	0	0
GPS,FR,4/1-6/30	0806104000	MT	0	25,500	0	31,290,926	0	0	0	0
GPS,FR,7/1-2/14	0806106000	MT	0	256	0	255,588	0	0	0	0
PEACH,12/1-5/31	0809304000	MT	0	281	0	219,269	0	0	0	0
SUBTOTAL.....		MT	34,520	86,037	45,119,640	31,765,783	0	0	0	0
FRESH FRUIT OTHER										
AVOCADO,FR FR/FS	1463000	MT	106	0	30,650	0	4	0	4,800	0
BANANAS,FRESH	1464000	MT	82,589	0	14,196,668	0	7,201	0	1,236,215	0
STBRY,F6/15-9/30	1465800	MT	1,189	0	538,145	0	0	0	0	0
STBRY,9/16-6/14	1466000	MT	14,744	0	14,156,107	0	912	0	1,392,248	0
BRYS,NES,FR,BRIN	1466200	MT	1	0	1,185	0	0	0	0	0
FIGS,FRESH/BRINE	1475000	MT	3	0	2,196	0	0	0	0	0
MANGOE,9/1-5/31	1480300	MT	10,440	0	10,162,729	0	0	0	0	0
MANGOE,6/1-8/31	1480600	MT	16,729	0	14,583,643	0	0	0	0	0
PAPAYAS,FRESH	1486000	MT	1,126	0	379,653	0	80	0	24,993	0
PINEAPPLE,FR/BLK	1489000	MT	2,405	0	202,204	0	104	0	16,237	0

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Mexico									
PINEAPPLE,FR,CRT 1489300	MT	164	0	34,374	0	0	0	0	0
PINEAP,X CRT/BLK 1489600	MT	590	0	76,245	0	0	0	0	0
PLANTAINS,FRESH 1491000	MT	48	0	15,905	0	0	0	0	0
TAMARINDS,F/P/FR 1494000	MT	313	0	242,653	0	9	0	11,537	0
FRUITS,NES,FRESH 1495000	MT	7,984	0	2,541,966	0	617	0	190,758	0
BANANAS, FRESH 0803002020	MT	0	94,587	0	16,109,915	0	9,732	0	1,737,589
PLANTAINS, FRESH 0803003000	MT	0	41	0	10,046	0	24	0	6,574
PINEAPPLES FR/DR 0804302000	MT	0	3,082	0	433,568	0	13	0	2,993
PINEAPPLES,FR/DR 0804304000	MT	0	101	0	22,269	0	0	0	0
GVS,MNG,9/1-5/31 0804504000	MT	0	13,879	0	13,303,172	0	0	0	0
GVS,MNG,6/1-8/31 0804506000	MT	0	30,043	0	23,738,766	0	0	0	0
PAPAYAS, FRESH 0807200000	MT	0	2,071	0	606,994	0	96	0	26,445
STRAWBERRIES, FR 0810102000	MT	0	654	0	277,462	0	0	0	0
STBRY, 9/16-5/31 0810104000	MT	0	13,234	0	13,270,346	0	596	0	630,958
TAMARINDS, FRESH 0810902030	MT	0	176	0	128,193	0	2	0	1,620
FRUIT,NES,FRESH 0810904000	MT	0	11,814	0	3,930,034	0	994	0	386,430
STBRY,PRES,INED 0812200000	MT	0	28	0	14,370	0	0	0	0
FIGS,PRES,INED 0812903000	MT	0	553	0	131,663	0	0	0	0
SUBTOTAL.....	MT	130,431	170,263	57,164,323	71,976,798	8,927	11,457	2,876,788	2,792,609
FRESH MELONS									
CANTLOP,6/1-9/15 1481000	MT	4	0	1,088	0	0	0	0	0
CNTLOP,12/1-3/31 1481200	MT	48,082	0	14,126,148	0	4,743	0	1,626,007	0
CANTLOP,FRSH,NES 1481700	MT	55,722	0	15,983,097	0	307	0	87,808	0
WMLN F,12/1-3/31 1482500	MT	38,904	0	7,493,580	0	2,453	0	568,835	0
WATERMELONS,FRSH 1482800	MT	76,619	0	13,305,326	0	9	0	2,952	0
MLN FR,12/1-5/31 1483000	MT	37,544	0	9,672,769	0	3,381	0	1,424,139	0
MLN FR,6/1-11/30 1483200	MT	1,439	0	326,699	0	0	0	0	0
CANTLOP,6/1-9/15 0807101000	MT	0	436	0	48,100	0	0	0	0
CNTLOP,9/16-7/31 0807102000	MT	0	142,669	0	52,559,660	0	6,269	0	2,225,409
WMLN F,12/1-3/31 0807103000	MT	0	62,091	0	9,662,196	0	1,929	0	215,403
WMLN,F,4/1-11/30 0807104000	MT	0	94,473	0	11,413,870	0	0	0	0
MLN FR,12/1-5/31 0807107000	MT	0	62,249	0	18,259,603	0	8,501	0	2,320,524
MLN FR,6/1-11/30 0807108000	MT	0	2,064	0	699,279	0	0	0	0
MELONS, UNCKD/CO 0811905500	MT	0	561	0	431,068	0	19	0	16,416
SUBTOTAL.....	MT	258,314	364,543	60,909,299	93,073,776	10,893	16,718	3,709,741	4,777,752
~~FRUIT, FROZEN~~									
~~RASPBERRIES,RED,FROZ 1467400~~	~~KG~~	~~2~~	~~0~~	~~6,864~~	~~0~~	~~0~~	~~0~~	~~0~~	~~0~~
Total Fresh Fruits				$173,315,150	$205,392,130				

Chairman GIBBONS. Mr. Furman.

STATEMENT OF FOSTER FURMAN, VICE PRESIDENT, LEGISLATIVE AFFAIRS, FURMAN FOODS, INC., NORTHUMBERLAND, PA

Mr. FURMAN. My name is Foster Furman. I appreciate this opportunity to appear before this committee. I remember well on June 13, 1984, when I appeared before the committee in regards to free trade with Israel, and we thank this committee for agreeing with us at that time that tomatoes were import-sensitive.

Our company is a small family owned business, a food processing plant which was started by my father, J.W. Furman, in 1921. At that time he canned 360 glass jars of tomatoes on a cook stove and wash boiler, and I was 10 years old—that is 70 years ago. Guess how old I am now?—and I carried the wood in to heat the tomatoes to boil those tomatoes to can those first 360 glass jars.

Its present owners are three of the second generation, eight of the third generation, and two of the fourth generation. Our principal business is canned tomatoes, and 72½ percent of our fresh packed vegetables are tomatoes. Since that is such a large part of our business, it would be very difficult for Furman Foods to survive if we could not make a profit on those items.

I would say that Furman Foods is vigorously opposed to any U.S. tariff reduction on tomatoes and tomato process. I would like to state why.

For the last 20 or 30 years, tomatoes have in every case been declared import-sensitive. Under the first GATT negotiation—I don't know how long ago they started, 20, 30 years ago—10 years ago in the Tokyo round we were again declared import-sensitive. Then when it came up for Israel in 1984 and again in 1990, we were declared import-sensitive, and there were only a few items that were put in our class that were not allowed free trade with Israel.

Also, in a number of cases, for instance, a petition was asked to take them off the GSP list. One of the last ones was with Mexico on paste in 1982, and that petition was denied. It wasn't even accepted for review. The petition of GSP for Chile and other South American countries was denied just this past year, July 23, 1990. There were about a third of those petitions denied and about two-thirds were accepted.

Another reason is that the United States rates on processed tomatoes is the lowest in the world. We are 14.7 duties and most of the countries are 18 percent, and Mexico itself is 20 percent. So needless to say, we do not export anything into Mexico because of the high duties.

The tomato industry covers about a third of the 48 States. There is about 31,000 production workers in the processing operations and in the farm harvesting and planting operations, of course, there are many thousands more. The growers were paid $640 million. The production value of canned tomatoes and tomato sauces were listed at $3,022.7 million.

Tomato products from Mexico are of particular concern to us because Mexico is close. When our customers order tomatoes from Greece, we will say, or Israel or the South American countries, they have to wait 2, 3, or 4 weeks to get them. But one of our cus-

tomers can call Mexico today and have it at their dock next Tuesday or Wednesday at a freight rate less than that of California.

We submit to you that Mexico does not need to have duties reduced on tomatoes. Mexico in 1988 was the No. 1 supplier of tomatoes and tomato products coming into the United States. They replaced the leading countries, which had been Italy, Portugal, and then in 1989 Chile outdid them. But the figures just came out this week that in 1990 Mexico was again the No. 1 supplier of tomatoes coming into the United States.

On tomato paste, 16.4 percent of all the paste that came into the United States came from Mexico. In 1989, $16,849,000, if you look at the chart in my testimony, I don't want to go into that too much in detail, but it shows that they had a growth of 48 percent. That is a tremendous growth. I am told that there are thousands of acres down there and there is lots of help available. Who knows how much of our business they can take over?

A major factor encouraging production in Mexico is a lot of low-cost labor, and I understand they do not pay fringe benefits. Fringe benefits, you take whatever our rate is, is 35 percent more, and as far as I can figure out, our rates paid, including fringe benefits, is about 12 times their rate. So you see what it does as far as labor goes.

I would also like to remind you that the duty is about $1.80 a case, and if you would transfer that over to the cost of the raw product, that would be equal to $42 a ton, which is half the price we pay for raw tomatoes.

Now, Mr. Dean Stuart, who is a farmer, will tell you they can't afford to take any reduction at all. So where can we go to recover that difference to offset the duties?

Workers who do not have jobs, farmers who do not make money, processors who do not make money do not pay income taxes. Somebody says we need taxes in Washington.

Conclusion: The No. 1 bottom line is in the long run—and it is already happening—the large United States processors from California are moving to Mexico. So with that goes the jobs that the processor would have had. With that goes the farmer's income, and so it goes. The No. 1 bottom line is jobs, jobs that go to Mexico instead of the United States.

We hope that you will recognize the import sensitivity of tomatoes, and that in view of that you would pass a resolution disapproving free trade with Mexico. And if that is impossible, then we ask that we get the same consideration that we have as far as GAP; otherwise, that you exclude tomatoes from this free-trade area.

Thank you very much. I deeply appreciate this opportunity.

[The prepared statement and an attachment follow:]

TESTIMONY OF FOSTER FURMAN
FURMAN FOODS, INC.

We appreciate the opportunity to appear before the Committee on Ways and Means U.S. House of Representatives. We are thankful we live in a country where we are free to express our opinion without fear of reprisal. May God grant that it will always be so.

Furman Foods, Inc. is a small family-owned business which operates a food processing plant in Central Pennsylvania. It was founded by my father, J.W. Furman, in 1921, when Father and Mother canned 360 glass jars of tomatoes on a cook stove in the kitchen of our home. Its present owners are three of the second generation, eight of the third generation and two of the fourth generation.

During the months of June, July, August, September, and part of October, Furman Foods cans peas, snap beans, peppers and tomatoes. All of these are delivered to our processing plant by farmers in the area. During the other eight months of the year, we utilize our plant capacity in the canning of dried beans.

The principal business of Furman Foods, Inc. is canned tomatoes and canned tomato products. Tomatoes account for 72.5% of our seasonable pack of canned vegetables and 42.4% of our total year-round production. It would be very difficult for Furman's to continue in business if we could not operate at a profit on tomatoes -- tomatoes being the backbone of our business.

Furman Foods, Inc. vigorously opposes any reduction in U.S. tariffs on processed tomato products, whether on a most-favored-nation basis or under a tariff preference. If there are to be negotiations for a common market or free trade area or negotiations of a lesser scope, such as on a sectorial basis, U.S. tariffs on processed tomato products should be withheld from the negotiations at the outset.

As Mexico is a net exporter of tomato products, and because of the numerous disparities between the two countries, lower Mexican duties on tomato products would be of inconsequential benefit to the United States.

The products of concern are:

HTSUS 0712.90.75	Dried Tomatoes (Tomato Flakes)
HTSUS 2002.10.00	Canned Tomatoes
HTSUS 2002.90.00	Tomato Paste, Tomato Puree, and Other Tomato Concentrates
HTSUS 2103.20.20	Tomato Catsup
HTSUS 2103.20.40	Tomato Sauce

Each of these is a value-added food product.

U.S. Tariffs on Tomato Products: In recognition of their import sensitivity, U.S. duties on processed tomato products were not reduced in the Tokyo Round. The United States held the line on its most-favored-nation tariff rates in the face of requests from developed countries and from developing countries for reductions in those rates. Processed tomato products are among the very few products on which U.S. duties were frozen until 1990--and are to remain frozen until 1995--under the U.S. - Israel Free Trade Area agreement.

A petition for GSP treatment for canned tomatoes was accepted for review in the early years of the GSP program and was rejected on the basis of USITC and other agency advice. Mexico's petition for GSP treatment on tomato paste in 1982 is among the petitions which were not accepted for review. The petition for G.S.P. for Chile and other South American countries was denied on July 23, 1990 on all tomato products.

Imports have been a problem for U.S. tomato growers and processors for many years. Furman Foods, Inc. is constantly threatened and frequently undercut by imports, especially from low-cost producers such as Mexico.

United States tariff rates on processed tomato products are already the lowest in the world. (Ex. 1)

The U.S. tomato products industry is a large nationwide industry which considers itself highly efficient but nonetheless unable to compete with low-cost imports from low-cost suppliers--especially Mexico with its proximity to the U.S. market--and therefore dependent on existing U.S. most-favored-nation tariff rates.

The U.S. industry comprises many thousands of independent growers and an estimated 100 food processing firms. Tomatoes for processing were grown and processed in 1989 in 16 states all across the country--one-third of the 48 contiguous states. Divided among the U.S. Department of Agriculture's regions, they are:

West	South Central	North Central	South Atlantic	North Atlantic
California	Texas	Ohio	Delaware	New York
Colorado		Indiana	Maryland	New Jersey
		Illinois	Virginia	Pennsylvania
		Michigan	S. Carolina	
		Iowa	Florida	

U.S. tomato growers were paid $640.1 million for the 1989 crop of tomatoes for processing. U.S. tomato processors employ an estimated 31,000 production workers in processing operations. The value of the tomato crop is enhanced by its processing into nonperishable form. The 1987 Census of Manufactures reported the 1987 value of production of canned tomatoes at $429.1 million and the value of tomato paste, catsup and tomato sauce at $3,022.7 million.

Tomato Products from Mexico: Because Mexico is so close, it poses a greater threat to us than Israel or South America countries. Some of our customers can call an order into Mexico and have truckloads delivered within a week. Also, the freight rates from Mexico are much less than from any other country. If Mexico gets duty-free treatment, the combination of inexpensive freight rates and duty-free tomato products would be disastrous to the entire United States, as well as to us in the northeast.

Mexico has demonstrated its ability to compete in the U.S. market for processed tomato products under existing MFN tariff rates.

Mexico has been a major factor in the U.S. tomato products import market for several years. U.S. imports of the three major tomato products from Mexico totaled $16,849,107 in 1989 and accounted for 11.3 percent of total U.S. imports of the three major tomato products.

U.S. Imports of Tomato Products, U.S. Total and from Mexico, By Value, 1989

	U. S. Total Imports	Imports from Mexico	Imports from Mexico as a Percent of the Total
	----------(dollars)----------		
Canned Tomatoes	45,062,349	9,350	0.0
Tomato Paste	102,486,054	16,837,434	16.4
Tomato Sauce	1,718,102	2,323	0.0
Subtotal	149,266,505	16,849,107	11.3

Mexico was the No. 1 foreign supplier of tomato paste in 1988, topping such traditional paste suppliers as Portugal and Italy. Mexico was the No. 2 foreign supplier of tomato paste in 1989, being exceeded only by another low-cost supplier, Chile. The dominance of tomato paste in imports from Mexico is shown in the following table:

U.S. Imports of Tomato Paste and Other Tomato Products from Mexico By Value, 1984-89

Year	Canned Tomatoes	Tomato Paste	Tomato Sauce	Total	Tomato Paste as a Percent of the Total
		----------(Value in 1,000)----------			
1984	0	10,924	98	11,022	99.1
1985	70	3,980	0	4,050	98.3
1986	2	8,118	5	8,125	99.9
1987	4	8,863	335	9,203	96.3
1988	18	11,597	61	11,675	99.3
1989	9	16,837	2	16,849	99.9

The American consumer is unaware of--probably indifferent to--the fact that imported tomato paste is the principal ingredient in many convenience foods. However, the impact on U.S. tomato growers is significant: More than 6 pounds of fresh tomatoes are utilized in one pound of tomato paste. Thus, 6 tons of fresh tomatoes produced by U.S. tomato growers--valued in 1989 at $67.50 per ton--worth a total of $405 for 6 tons--are displaced by each ton of imported tomato paste. The loss to processors is significantly larger.

A free trade area between the United States and Mexico could not achieve reciprocal benefits for the United States because of the differences in the two economies. There are important disparities in factors which directly affect tomato production and consumption.

A major factor favoring production and processing of tomatoes in Mexico is its abundance of low-cost labor for farm and factory work, as well known and is evidenced by the entry of Mexicans into the United States for employment here in unskilled occupations.

I understand their workers do not receive any fringe benefits. When you realize that our fringe benefits add 35% to our labor cost, then you realize why our labor costs are at least 12 times higher than theirs.

I would remind you, duties amount to about $1.50 to $1.80 per case, depending on the product. These duties are equal to half of the price that farmers received for their processing tomatoes this year. Duties of $1.80/case equate to $42.85 per ton of fresh tomatoes and $1.50/case equates to $35.71 per ton.

Also, workers, who do not have jobs, farmers, and tomato canners who do not make a profit will not be paying income taxes.

CONCLUSION

The number one bottom line is, in the long run, large U.S. processors will move their tomato processing operations to Mexico, leaving U.S. tomato growers and small U.S. processors, and their thousands of workers, in the lurch.

Our county (Northumberland Co.) is listed in the Federal Register of 11-19-90 as a labor surplus area.

Please note that, of the over 100 tomato processors in the U.S., over 60% of them are classed as small business.

Also, tomatoes and tomato products are their most important item and the back bone of their business. Many find it almost impossible to survive if tomato processing is not a profitable business.

In all states except California, most of the farmers that depend on tomatoes as a good cash crop are family sized farms.

The number two bottom line is jobs; but instead of American jobs, it is Mexican jobs in Mexico.

We hope you recognize that tomato and tomato products are import sensitive. In view of that, we hope you will pass a resolution disapproving a free trade agreement with Mexico.

If you decide that there must be free trade with Mexico, then we ask that tomatoes be excluded.

If it is impossible to exclude them, then we need the longest possible phase in.

Thank You,

Foster Furman

Foster Furman
V.P. Legislative Affairs

MOST-FAVORED-NATION TARIFF RATES ON PROCESSED TOMATO PRODUCTS IN MAJOR PRODUCING AND TRADING COUNTR

(arrayed in descending order according to the 1987 tonnage of tomatoes for processing) a/

	Production of Tomatoes for Processing in 1987 a/	Dried Tomatoes 0712.90.75	Canned Tomatoes 2002.10.00	Tomato Paste and Puree 2002.90.00	Tomato Ketchup 2103.20.20	Tomato Sauce 2103.20.40	Unweighted Average b/
	(m.t.)	(percent ad valorem)					
Country:							
United States b/c/	6,892	11.0	14.7	13.6	7.5	13.6	12.48
EC-9	5,485	16.0	18.0	18.0	16.0	16.0	16.80
Italy	3,100	16.0	18.0	18.0	16.0	16.0	16.80
Greece	976	16.0	18.0	18.0	16.0	16.0	16.80
Spain	743	16.0	18.0	18.0	16.0	16.0	16.80
Portugal	427	16.0	18.0	18.0	16.0	16.0	16.80
France	239	16.0	18.0	18.0	16.0	16.0	16.80
Turkey d/	900	25.0	40.0	50.0	40.0	40.0	39.00
Canada e/	477	10.0	13.6	13.6	15.0	13.6	13.16
Taiwan c/	384	50.0	25.0	25.0	20.0	20.0	28.00
Mexico c/	383	20.0	20.0	20.0	20.0	20.0	20.00
Israel	177	8.0	14.0	14.0	14.0	14.0	20.00
Chile	n.a.	20.0	20.0	20.0	20.0	20.0	20.00
Japan e/	n.a.	15.0	15.0	25.0	20.0	25.0	20.00
Korea f/	n.a.	30.0	50.0	1989..15.0 1990..13.0 1991..11.0 1992.. 9.0 1993.. 8.0	60.0	60.0	41.60

a/ Production of tomatoes for processing as reported by the Foreign Agricultural Service, USDA.

b/ Only the United States and Canada assess duties on f.a.s. values. Other countries assess duties on c.i.f. values.

c/ The United States, Taiwan, and Mexico assess a customs user fee and/or harbor maintenance fee.

d/ Turkey assesses prohibitive surcharges in addition to the tariff. The surcharge on dried tomatoes (US$500/metric ton) amounts to (US$50/metric ton) amounts to US$0.53 per case of 6 No. 10 cans or U.S.$0.08 per 6-ounce can.

e/ Japan's temporary tariff on canned tomatoes is 9.6 percent.

f/ Korea assesses a 10 percent value-added tax on the duty-paid price and a 2.5 percent defense tax.

n.a. = not available. m.t. = metric tons.

Chairman GIBBONS. Thank you, Mr. Furman. It is nice to see you back. The years have treated you kindly.

Mr. Stuart.

STATEMENT OF W. DEAN STUART, OWNER, CRYSTAL VALLEY FARMS, CORNING, NY

Mr. STUART. Thank you, Mr. Chairman, for allowing me to address my concerns with the Mexican free-trade agreement. My name is W. Dean Stuart, and I am the owner of Crystal Valley Farm in Corning, NY, and we farm 3,000 acres of vegetable crops and employ 28 full-time employees. I am here to ask your support in disapproving the negotiation of free trade area agreement with Mexico.

A few of my concerns are that the United States tomato products industry, including growers and processors and cannery workers, are among the United States industries that will be most adversely affected by the proposed FTA with Mexico. Three things will happen if tomatoes and tomato products enter the U.S. duty-free. These tomatoes are priced so low that the processor must reduce their price to us, the growers, as well as reduce our acreages. Due to the fact that for every 1 ton of finished tomato products that come into the United States in concentrate form replaces 6 tons of tomatoes that I would grow on my farm and sell to the processor, this would be approximately $600 loss to our farm for every ton of tomatoes that have been imported. Because of the price advantage, we could see a flood on the U.S. market.

Even at existing United States tariff rates, Mexico is already a major supplier of tomato products and other canned and frozen fruits and vegetables. The United States tariffs on tomato products are among the lowest in the world are not an impediment to imports from Mexico.

United States imports from Mexico in 1989 of the three major tomato products—canned tomatoes, tomato paste, tomato sauce—totaled 16,849,000 and accounted for 11.3 percent of the total 1989 United States imports of those products. I am concerned that the duty-free imports of canned tomatoes and other tomato products from Mexico would disrupt the United States market without any benefit to the consumers.

Mexico has an unfair advantage as they use chemicals that we have not been able to use and that have been banned in the United States. We have to go by the EC rules. We have to list our chemicals. We grow all our vegetables with the IPM program, which is the integrated pest management program, and the FAST program which Cornell University developed. It is forecasting for blight so that it is done by leaf wetness and it is very technical with the computer, and we can tell when we need to apply herbicides and when we don't. It has saved tremendously on costs for herbicides and produced a safer product.

Also with labor, we have to pay unemployment compensation, Social Security on our people, and we also pay benefits. We have to go with the right-to-know system with the Health Department on our use of pesticides.

So food safety and the condition of our environment is one of our key concerns. With the more imports coming in, the budget cuts that the Government has imposed, I think it would be very hard for them to keep a track on the residues of product coming into the country.

I would also like to remind you that duties amount to about $1.50 per case to $1.80 per case of finished product, depending on the product. These duties are equal to half the price I received for my tomatoes this year. Duties of $1.80 a case equate to $42.85 per ton of fresh tomatoes for processing, and $1.50 per case equates to $35.71 per ton.

In conclusion, the United States consumers will not necessarily benefit from duty-free tomato products from Mexico because United States processors, the overhead costs and prices of all their products will have to be increased to offset any decrease in sales revenue resulting from import displacement. In the long run, large United States food processors will probably move down to Mexico, and that is where the tomatoes will be grown. That will leave the U.S. growers, myself, and cannery workers in the lurch. What the United States-Mexico FTA is all about is jobs and farms, and it is our jobs and my farm.

Thank you for hearing my concerns.

Chairman GIBBONS. Thank you, Mr. Stuart.

Mr. Commissioner, let's talk about the products that are involved here. We have concentrated mainly on tomatoes so far, and I am sure there are a lot more products in Florida. Would you care to name some of the other products that you feel are sensitive?

Mr. CRAWFORD. I would be glad to, Mr. Chairman. Of course, citrus, which is one of our major products, Mexico currently has a significant amount of citrus acreage, and with the capacity that I understand they do have, they could equal the number of acres that Florida has. So that is another very sensitive area, but there are a number of others, cucumbers, celery, lettuce, a number of different commodities that would be sensitive in this regard. Again, it is the winter months that we are looking at.

Chairman GIBBONS. Well, I will see you at the strawberry festival in a couple of weeks. I know that that is a very sensitive commodity. As I recall, one-fourth of all the winter strawberries are raised in Hillsborough County.

Mr. CRAWFORD. That is correct.

Chairman GIBBONS. That is the heart of my district.

Mr. CRAWFORD. Yes, that is on my list as well. We have a $70 million crop there in Hillsborough County alone. So that is a very important crop and one that made it through this last freeze we had last weekend, and we are hoping to have a good crop this year.

Chairman GIBBONS. But we have got peppers and beans and corn and——

Mr. CRAWFORD. Radishes.

Chairman GIBBONS [continuing]. Radishes, yes.

Mr. CRAWFORD. Eggplant, cucumbers, celery, carrots, cabbage, snap beans, quite an array. Florida now produces about 270 different commodities. We are quite diversified, but Mexico is, also.

Chairman GIBBONS. Now, is the problem a seasonal problem, or is it a year-round problem? Is it the fact that the Florida crops mature about the same time as the Mexican crops?

Mr. CRAWFORD. We are on the same latitude, basically, geographically, and we are in the same climate, so we both have favorable weather conditions during those winter months, when everybody else is shut down in this country, virtually, so we have developed a real capacity for delivering fresh fruits and vegetables during those winter months and those are the sensitive areas. If we ever lost them, I would think, with the dynamics of Florida and the growth and all, we would never be able to replace it.

Chairman GIBBONS. I think it is important to point out here for the record that the International Trade Commission study pointed out that there would be some damage in the horticultural area, one of the few areas that they picked out in the whole study of all of America's production, that there would be real damage suffered by the industry.

I spoke yesterday in the public hearing to the U.S. Trade Representative and called that to her attention, and I am sure that it is one of the things that they will concentrate on in the negotiations.

I know you have only been in office a short time, but have you been able to get yourself involved in the advisory committee process with the U.S. Trade Representative?

Mr. CRAWFORD. No, we have not, and we would very much—this being my first trip to Washington after the recent election, learning my way around, I can see that is something we need to focus on very quickly.

Chairman GIBBONS. The United States is unique in the world. When we go out and negotiate, we take with us the private sector and involve them in the negotiations, and we would certainly involve an official such as you in that negotiation as an advisor, to keep you posted and to gain the knowledge that you have and that your associates have. So, if you have any trouble at all getting—and I do not think you will, but if you have any trouble at all getting proper liaison with the U.S. Trade Representative's Office, just call on me to assist you in that.

Mr. CRAWFORD. I appreciate that very much. I know you could assist and that would be very helpful.

Chairman GIBBONS. That applies to all the rest of you. I guess you are a member of one of those ISAC groups, is that right, Mr. McClung?

Mr. MCCLUNG. Yes, sir, we have been involved in those discussions.

Chairman GIBBONS. How do they treat you? Do they call on you?

Mr. MCCLUNG. Well, thus far, it is early yet, as you know, and we have not had much input, but bearing in mind your offer, which we will certainly be more than happy to take you up on, I think that we have access.

Chairman GIBBONS. Well, we go forth with a philosophy that we are negotiating for the United States and that means for the private sector of the United States, and we know we cannot get an agreement agreed to, unless the private sector supports it. So, it is very important, as we go into all of these negotiations, that we keep the private sector and the Government sector adequately in-

volved in the negotiating process, and it has been our modus of operation, where we run into problems, to give phase-ins and snapbacks and all kinds of types of market control.

We are going to have some problems in the environmental area, and that is one of the big problems that we have to work out in this entire negotiation. On paper, the Mexican standards are about like ours, but there seems to be a large gap in the enforcement of those environmental regulations, and that includes the use of pesticides and things of that sort that have residual impact.

Mr. McGrath.

Mr. McGRATH. Thank you, Mr. Chairman.

I want to thank the panel for their testimony and welcome them to the committee, and particularly Mr. Stuart from New York. I bring you greetings from your Congressman, Mr. Houghton.

As I have listened to you, basically what I am hearing is concern over safety, food safety, which, of course, is the concern of the Government here, too, and I suspect that any agreement would have to harmonize the environmental concerns of the United States with those of our Mexican adversaries in this particular issue. Hopefully, as the Chairman has pointed out, enforcement would be among those things that can be addressed.

Also, I hear of the competition, the area of competition as applies to duties and competition as it applies to their wage and benefit rates for their workers as compared to those which we have to pay here in our country.

Absent the fact that perhaps you can be exempted from the consideration, as Mr. Furman points out, his product has been in past trade agreements, let me ask what would be a reasonable transition to full compliance, should it be negotiated, how many years, 10, 15, 20?

Mr. FURMAN. How many years, do you say?

Mr. McGRATH. Yes, sir.

Mr. FURMAN. If you were to have a phase-in?

Mr. McGRATH. Yes, sir.

Mr. FURMAN. As long as possible.

Mr. McGRATH. As long as we can get away with it, I guess.

Mr. FURMAN. Frankly, they talk about their wage level coming up so that they can buy our products——

Mr. McGRATH. I suspect what we would be looking at is trying to guess at what point would their wages be commensurate with ours, in terms of putting us on an equal plain. Now, I do not know how that can work or it will just have to be a guess.

Mr. STUART. On your phase-in, if you took down the tariffs to zero, Chile was a big exporter to the United States last year and my concern, too, would be that they would be able to bring their production into Mexico and dump it into the United States, also. How would you be able to take care of that?

Chairman GIBBONS. We would have rules of origin.

Mr. McGRATH. We would have antidumping, I would suspect.

Chairman GIBBONS. We anticipate that kind of problem for not only agricultural products, but for manufactured products. Under the past agreements we have had, we have had rules of origin, where the product has to have either so much domestic content or

its character must have been changed in order to transform it to a different item in the tariff schedule.

I realize the competition from Chile. Chile is going to be a very big food and vegetable producer in the future.

Mr. FURMAN. May I say a word with regard to that?

Chairman GIBBONS. Certainly.

Mr. FURMAN. I realize there are laws that prohibit what is called a transshipment or whatever it is. It is interesting that Israel exports more grapefruit than they produce. Figure that out. You know, there is usually some way they get around the law and then it takes a couple of years for Government to plug the hole, and in the meantime you lose the industry.

Chairman GIBBONS. I do not think they ship any grapefruit into this country.

Mr. FURMAN. They may not, but they export more grapefruit than they grow.

Chairman GIBBONS. Nobody over here eats their grapefruit.

Mr. MCGRATH. Sam Gibbons is going to make sure of that. [Laughter.]

Mr. FURMAN. To get more to the point about the phase-in, I would think that anything that would be greater than a 1 percent change a year would be disastrous, so we are talking about——

Mr. MCGRATH. A hundred years.

[The following was subsequently received:]

I meant to say that duties now are 14.7 percent. They should not be reduced more than 0.75 percent a year, which would take about 20 years instead of the 100 years that Congressman McGrath thought I meant.

Mr. MCCLUNG. Mr. McGrath, if purchasing parity or purchasing equilibrium on the two sides of the border is to be one of the principal considerations, and it certainly ought to be, from our perspective, then perhaps talking about the number of years is not the solution. Perhaps talking about phasing it in as that parity is reached, some sort of formula along those lines would be——

Mr. MCGRATH. On Long Island, we have—not where I live, I can assure you, but further out—we do have some agriculture areas and we used to supply a lot of potatoes in this country, and many of the workers who work out there do not make the minimum wage. I am just wondering how long it would be, in terms of years until the Mexican workers would be making the same kind of salary as migrant workers in New York, even.

I appreciate the opportunity to ask questions. Thank you, Mr. Chairman.

Mr. FURMAN. May I have just one more word?

Chairman GIBBONS. Sure, Mr. Furman.

Mr. FURMAN. We do not ask for a privilege, we ask for a level playing field, and I will say this, that if you put them on the 100-yard dash, you put them at the 10-yard line, give us a 10-yard handicap, we will catch them. But if you give us a 30-percent handicap and they will beat us.

Chairman GIBBONS. Mr. Furman, I hope to see you back here in about 10 more years.

Mr. FURMAN. Will, I will try to make it. Thank you. [Laughter.]

Chairman GIBBONS. Mr. Crawford, I hope to see you before that time.

Mr. CRAWFORD. Thank you, Mr. Chairman.

Chairman GIBBONS. Our next panel is the Border Trade Alliance, Mr. Joffroy, the Texas Center for Border Economics and Enterprise Development, Mr. Michie, and the State of New Mexico's Department of Energy, Minerals and Natural Resources, Mr. Merrett.

Mr. Joffroy.

STATEMENT OF WILLIAM F. JOFFROY, JR., CHAIRMAN, BORDER TRADE ALLIANCE

Mr. JOFFROY. Good afternoon, Mr. Chairman. Thank you very much for this opportunity to testify before you and your committee today.

My name is William Joffroy, Jr. I am the chairman of the Border Trade Alliance. We are headquartered in Nogales, AZ. We also call ourselves BTA, to make it simpler.

On behalf of the BTA, a grassroots alliance of U.S. Southwest border communities, it is my pleasure to submit to you our testimony today.

I am a life-long resident of Nogales, AZ, a border city, and a licensed customs broker for over 17 years. I can attest to the vital importance of a North American free-trade agreement. As you are aware, Nogales, like many other U.S. border communities that the BTA represents, is dependent on the free flow of goods, services, and people across the border.

For this reason, the BTA strongly endorses the North American free-trade agreement and encourages your committee to support this important trilateral initiative and fast-track authority.

The economic benefits derived from Mexico are not simply visible throughout the border region, but are also felt in States like Washington and Oregon, which produce lumber and forest products, in Illinois and New York, which manufacture machinery and capital goods, by furniture manufacturers in North Carolina, by grain growers in Kansas, and by electronic and automobile component suppliers from California, Ohio, and Michigan. The benefits are truly universal.

On the issue of U.S. jobs, I realize that many members of this committee are deeply concerned that a North American free-trade agreement will lead to plant closure in their districts, but I will be the first to admit that trade liberalization will lead to some structural imbalances in America's work force. The numbers of job losses will not be what they seem.

After all, Mexico is still largely dependent on American components that are supplied to the over 1,800 maquiladoras in Mexico. In fact, a recent survey of AmCham noted that about 86 percent of maquila components were of U.S. origin.

Irrespective of a free trade accord, U.S. manufacturers will continue to move offshore, in search of lower wages and a more competitive work force. No political initiative will stop this exodus of U.S. companies. For the firms that move to Asia, the industry, technology and jobs are lost forever.

Earlier today, we heard testimony about homes built of cardboard or shanty towns, as they are called by some people of the press. Having lived on the border all of my life and I have traveled extensively through Mexico, I can tell you from my own visual and personal experience that these shanty towns exist all over Mexico. This is not a border phenomenon and this is not a maquila generated phenomenon. I would truly encourage those that have criticized the maquila industry to visit the rest of Mexico, to see for themselves.

Along the same lines, not trying to justify this type of living condition, however, it is a bit better than some of the conditions in which our U.S. homeless live in our own country.

Recommendations have been made by labor and environmental organizations to include the environment in the free trade negotiations with Mexico. We do not support these recommendations. We believe that environmental issues and concerns must be addressed immediately by the United States and Mexico, but separately from trade negotiations.

The welfare of the environment in the Southwest border region is a very important issue to the BTA, and through our environment committee we have worked with EPA and SEDUE, its Mexican counterpart, for over 2 years on technical cooperation efforts. The BTA plans to develop companion legislation specifically including the environment.

Our concerns are genuine. After all, we reside on the border. We do not desire contaminated water or dirty air. We recommend that the public and private sectors work together in developing binational regulations and compliance standards to achieve a clean environment. We encourage dialog with the organizations having similar concerns about the environment. I believe that we will discover we are not too far apart.

As part of the FTA recommendations that the Border Trade Alliance is making, we are including in the service sections that all restrictions be eliminated on environmental services, products, technology and education. So, we are not by any means ignoring this important issue.

Finally, I would like to just share with you some of the related issues that we feel are extremely important to a successful culmination of a free-trade agreement. One area that has not been mentioned very much today, possibly in previous testimony yesterday, is the area of infrastructure along the border, specifically U.S. Customs, ports-of-entry facilities, transportation, hazardous waste management, housing, education and training. These are all areas that need legislation, that need funding, and we believe that some of this funding could be privatized.

Again, on the environment, increased personnel and financial resources should be allocated to EPA to assist on its ongoing cooperation with SEDUE. In the area of Customs, the BTA has worked for over 4 years on providing surveys and studies on Customs staffing along the border, adequate training, automated systems, and the use of high technology to aide U.S. Customs in the facilitation of cargo and drug interdiction. We have been instrumental in working with the U.S. Customs Service on developing programs such as line release, border selectivity, and the tripartite agreements.

We would also encourage through this type of dialog that, in a free-trade environment, we do everything possible to eliminate as much paperwork as we can. Using electronic technology will achieve the ends that Customs is looking for.

Today, we have been hearing about competition, the concern that United States companies and industries have because of Mexico's economic status today. Generally speaking, I think we are all looking at the same thing, and that is change; and change is inevitable.

I remember our former Commissioner of Customs, William von Raab, told our industry to automate or perish. Well. we automated; and in the same vein, I think in a free trade agreement environment, we have to look at change realistically and help those industries that are concerned about displacement to find and develop opportunities in the United States as well as Mexico.

Thank you very much for this opportunity.

[The prepared statement and a subsequent letter and attachment follow:]

BTA

BORDER TRADE ALLIANCE

February 18, 1991

The Honorable Dan Rostenkowski
Chairman
House Ways and Means Committee
United States House of Representatives
Longworth House Office Building, Room 1102
Washington, D.C. 20515

Dear Mr. Chairman:

On behalf of the Border Trade Alliance, a grass roots alliance of U.S. Southwest border communities, it is my pleasure to submit the attached recommendations for your committee's review.

As a life-long resident of Nogales, Arizona and a licensed customs broker for over 17 years, I can attest to the vital importance of a North American Free Trade Agreement (NAFTA). As you are aware, Nogales, like many of the other U.S. border communities that the BTA represents, is dependent on the free flow of goods, services, and people across borders. For this reason the BTA strongly endorses the NAFTA and encourages your committee to support this important trilateral initiative.

Though my organization firmly supports the NAFTA, I recognize that there are those on your committee that are deeply divided on the merits of a free trade accord with México. However, as America's third largest trading partner (second only to Canada and Japan), with $25 Billion in U.S. exports, Mexico has become an important mainstay of our economy.

The economic benefits derived from México are not simply visible throughout the border region, but are also felt in states like Washington and Oregon which produce lumber and forest products; in Illinois and New York which manufacture machinery and capital goods; by furniture manufacturers in North Carolina; by grain growers in Kansas; and by electronic and automobile component suppliers from California, Ohio, and Michigan. The benefits are truly universal.

Though U.S. exports to México are formidable, there is still enormous potential for long term growth. True, today México is a relatively poor country of 88 million people, but its potential for rapid economic growth and market expansion is substantial. The key is to be able to look at México as it could be--a vibrant industrialized nation of 100 million (in the year 2000). The FTA will be critical towards realizing this vision.

A stronger more prosperous México will not only serve to expand U.S. exports opportunities in the future, but it will serve to create long-term employment opportunities for the Mexican people. As Mexican President Carlos Salinas de Gortari told the Wall Street Journal recently, "the key question is, where do you want mexicans to work, in México or the United States? I would rather export goods than labor."

Finally, I want to address the issue of jobs, for I realize that many members of this committee are deeply concerned that NAFTA will lead to plant closure in their districts. While I will be the first to admit that trade liberalization will lead to some structural imbalances in America's workforce, the numbers (of job losses) are not what they seem. After all, México is still largely dependent on U.S. components to supply the country's over 1,800 maquiladoras. In fact, a recent survey of the American

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Chamber of Commerce of México noted that over 86% of maquila components were of U.S. origin.

Irrespective of a free trade accord, U.S. manufacturers will continue to move offshore in search of lower wages and a more competitive workforce. No political initiative will stop this exodus of U.S. companies. For the firms that move to Asia, the industry, technology, and jobs are lost forever. The transportation costs associated with sourcing from the U.S., make it an impractical and costly proposition. However, when industry expands to México there still remains a strong possibility that components will be sourced from the U.S., thereby preserving American jobs. So you see, our economies are increasingly becoming more interdependent. That's what NAFTA is all about.

Therefore, the issue of jobs is not as black and white as some would have you believe. As I have identified, there are still a number of grey areas relating to NAFTA that are worth additional consideration by this committee. In light of this fact, I urge you and your distinguished colleagues to carefully review the recommendations provided by the Border Trade Alliance.

Recommendations have been made by labor and environmental organizations to include the environment in the trade negotiations with México. We do not support these recommendations. We believe that environmental issues and concerns must be addressed immediately by the U.S. and México, but separately from trade negotiations. The welfare of the environment in the Southwest Border region is a very important issue to the Border Trade Alliance, and through our Environment Committee we have worked with the Environmental Protection Agency (EPA) and its Mexican counterpart, Secretaria de Desarrollo Urbano Y Ecologia (SEDUE) for over two years on technical cooperation efforts.

Our concerns are genuine; afterall we reside on the border. We do not desire contaminated water or dirty air. We recommend that the public and private sectors develop binational regulations and compliance standards to achieve a clean environment. We encourage dialogue with organizations having similar concerns about the environment; I believe we will discover that we are not too far apart.

Thank you for giving the NAFTA the serious consideration that this issue deserves.

Sincerely,

William F. Joffroy, Jr.
Chairman

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SUMMARY RECOMMENDATIONS
FOR THE U.S.-MEXICO FREE TRADE AGREEMENT

TARIFFS:

- Elimination of all tariffs over a 10 year period;

NON-TARIFF BARRIERS:

- All quantitative restrictions, such as steel and textile quotas and Mexican import licensing requirements for agricultural items, should be eliminated as quickly as possible.

- Eliminate immediately the practice of counting U.S. material content under the textile and apparel quotas with México.

TRANSPORTATION:

- Commercial motor carrier operations within México's frontier zone and the U.S. ICC Commercial Zones in border communities should be reciprocal and access to the above areas should be unrestricted for both U.S. and Mexican commercial vehicle that are in compliance with the licensing, safety equipment, insurance, and tax regulations of the respective countries.

- Licensing of operators of commercial motor vehicles should conform with international drivers' license programs.

- Safety equipment standards for both countries should conform to requirements set forth in the Motor Carrier Act of 1984 and Omnibus Drug Act of 1988.

- Immigration visas for operation of commercial motor vehicles within above zones should be recognized and issued.

- Domestic transportation industries (road, rail, and air) of both countries should be opened to direct investment by individuals of both countries.

- Insurance coverage for Mexican motor carriers must be the same as cargo and third party liability insurance required by the U.S.-Canadian Free Trade Agreement.

AGRICULTURE:

- All duties in this sector must be eliminated.

- The staging of duty elimination for specific products in this sector should reflect the degree of current protection and import sensitivity of an item. Some duties could, however, be eliminated immediately.

- All import licensing requirements and quotas in this sector should be eliminated.

- There should be no restrictions placed on the use of countervailing duty or anti-dumping laws in order to counter, whenever necessary, subsidized or dumped imports.

- The 20 year safeguard provisions for fresh fruits and vegetables, contained in the U.S.-Canada FTA, should be included in the U.S.-México FTA.

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- All unreasonable or unjustifiable non-tariff barriers to trade, such as phytosanitary requirements maintained by México on kiln-dried lumber, should be eliminated immediately.

- The U.S. should obtain increased rights for foreign investors to own agricultural land in México.

- Pesticides and other chemical regulations need to be harmonized on both side of the border.

SERVICES:

- All restrictions should be eliminated on investment in, or the provision of, as many services as possible, such as environmental services, insurance banking, and after sales installation, maintenance, and warranty.

- México should be urged to adopt adequate laws to protect collateral and lien.

- The requirement that newly incorporated companies in México must maintain a balanced accumulated foreign currency budget during the first three years of operation should be eliminated immediately.

RULES OF ORIGIN:

- Rules of origin adopted should be developed in a manner to limit administrative burdens.

- A "Made in North America" label should be adopted as a legally acceptable option.

CUSTOMS:

- The U.S. and México should establish a task force to standardize customs policies and procedures regarding the exchange of trade between the two countries.

- A representative of the BTA should be appointed as a private sector advisor to the above mentioned task force.

VISAS/IMMIGRATION:

- Both Mexican and U.S. non-immigrant visas for business purposes should be available by applying at a port of entry or consulate with expeditious processing available (24 hour turn-around).

- A special non-immigrant visa classification should be available to Mexican/U.S. nationals similar to that available under the Canada/U.S. Free Trade Agreement. Such a visa classification should be indefinite as long as the foreign national has continuous employment.

- Bilateral agreements dealing with cross-border movement of agricultural workers should be liberalized and simplified without the requirement of labor certification.

- Immigration visas for operation of commercial motor vehicles within the specified zones should be recognized and eliminated (SEE TRANSPORTATION)

DISPUTE SETTLEMENT:

- A simple and expeditious dispute settlement mechanism must be included in the agreement to deal with possible non -compliance.

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- The two governments should work to create a bilateral dispute settlement or arbitration mechanism to handle private commercial disputes between parties of both countries.

GOVERNMENT PROCUREMENT:

- The U.S. should obtain the right for U.S. Producers and service providers to bid on Mexican Government contracts above a certain threshold (perhaps $50,000.00).

- Products produced, manufactured or assembled in México should be defined as eligible products under all U.S. Government "Buy America" regulations.

INTELLECTUAL PROPERTY:

- The U.S. should seek stronger patent, trademark, and copyright protection in México than in place as of January, 1991.

ENERGY:

- México should open its petroleum distribution system in the frontier. All commercial motor vehicles operating in México's frontier zone and U.S. ICC Commercial Zones of border communities should be retrofitted and required to use clean fuels and lubricants by 1994.

RELATED ISSUES:

INFRASTRUCTURE:

- The BTA recommends that the Executive and Legislative branches of government develop and fund a program to address the following areas:

  A) Customs Clearance; B) Transportation; C) Hazardous Waste Management; D) Housing; E) Education and Training.

ENVIRONMENT:

- Increased personnel and financial resources should be allocated to the Environamental Protection Agency (EPA) to assist in its on-going technical cooperation efforts with the Secretaria de Desarrollo Urbano y Ecologia (SEDUE).

CUSTOMS:

- Additional staffing and adequate training.

CLEARANCE PROCEDURES:

- Automated systems must continue to be developed.

- Selectivity, line release, and tripartite programs should be upgraded technologically and expanded to include more export products.

EXTENDED HOURS OF OPERATION

PORTS OF ENTRY:

- The financing of port of entry facilities should be privatized.

ROADS:

- The financing and maintaining of access roads (local, state, or federal) to ports of entry should remain public. users fees should be considered to defray the cost.

CLASSIFICATION OF HAZARDOUS WASTE:

- A classification system that assigns no rate or an extremely low rate is needed.

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[The following information was subsequently received:]

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BORDER TRADE ALLIANCE

March 25, 1991

Chairman Dan Rostenkowski
House Ways and Means Committee
United States Congress
1102 Longworth House Office Bldg.
Washington, D.C. 20515

Dear Congressman Rostenkowski:

On behalf of the Border Trade Alliance (BTA), I am herein providing the recommendations of our organization with respect to the U.S. negotiating objectives for the U.S.-Mexico free trade agreement (FTA). The BTA has closely followed the evolution of U.S-Mexico trade and investment relations since its formation in 1986, and was discussing the concept of an FTA with Mexico even before news of such a possible agreement first appeared in the Wall Street Journal in late March, 1990. Let me make clear from the beginning that the BTA is a firm supporter of the Administration's objectives of negotiating such an agreement.

As you are aware, the Border Trade Alliance is precisely what its name suggests --a grass roots alliance of United States/Mexico border organizations. It was founded in 1986 to act as a forum for its participants to discuss and advocate the interests of "the border." Operating as a network of economic development corporations, chambers of commerce, trade associations, banks, industrial parks, service providers, manufacturers, and state and local government agencies, it works to educate, build consensus and solve problems. BTA participants include representatives from the United States border communities and the four border states. Its policy objectives include the improvement of the means of commerce between the United States and Mexico, the development of necessary resources for border economic growth, and the advocacy of private and public sector border interests in the regulatory and legislative process.

The attached recommendations of the BTA are the product of a lengthy, detailed review by numerous BTA committees of issues which they felt should be part of the negotiation. Participants in these committee meetings included plant managers, city development officials, state officials, custom brokers, bankers, retailers, transportation company representatives and numerous other business people with interests along the border. In preparing our

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recommendation, we have attempted to be as specific as one can be for a broad business coalition, but we stand ready to provide more specific information that might be required by your team.

The BTA is aware that certain groups have actively suggested that environmental, workers rights and human rights issues be included in FTA negotiations. While the BTA shares some (not all) of those concerns, we do not by any means believe that these issues should be part of the negotiating agenda of the FTA itself. Nonetheless, the BTA does believe that border environmental problems are of critical bilateral importance and that the increased economic growth which the FTA should stimulate will require that they receive increased attention. The BTA is aware of the progress already made with Mexico in terms of negotiated environmental agreements over the last decade and of ongoing EPA-SEDUE cooperation. The BTA supports this approach and urges that even more resources (budgetary and personnel) be dedicated to this very important effort.

For its part, the BTA has given increased attention over the past two years to the border environmental question and has met with EPA and SEDUE officials on several occasions. In addition, the BTA's ongoing interest in maintaining a clean industrial environment is reflected in the work of several internal committees which are:

(1) working closely with the maquila industry and keeping in contact with Mexican officials from SEDUE;

(2) taking a firm stand in favor of compliance with environmental regulations and organizing seminars and meetings to discuss and solve problems;

(3) serving as a source for information and training Mexican environmental officials; and

(4) supplying computers, facilities and equipment to under budgeted Mexican agencies.

I would be remiss in my duties as Chairman of the BTA if I failed to mention our strong concern about the impact of the FTA on border infrastructure. While we support the negotiation of such an agreement and hope that it will in fact stimulate new economic growth in the border region, we are also concerned about the impact of the increased growth and trade on an already inadequate border infrastructure. We realize that the FTA itself is not the specific mechanism for addressing problems such as roads, bridge crossings, housing and water and sewage treatment plants. However, we do hope that we can count on your support and that adequate funding will

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be appropriated to address these issues as the provisions of the FTA are implemented.

The letter and enclosed set of recommendations does not end the involvement of the BTA in the FTA exercise. We intend to remain close followers of the progress of the negotiation and to coordinate our support for Fast Track Authority and FTA with other private sector groups. We will be in contact with United States Trade Representative Ambassador Carla Hills' staff from time to time and Mexico Chief Negotiator Herminio Blanco's team in Mexico City to discuss whether our concerns are being satisfactorily addressed. Similarly, you and your staff are most welcome to contact me or other BTA representatives at any time in order to obtain additional information on a border perspective.

Thanking you for the atention that you give to the enclosed, I am,

Sincerely,

William F. Joffroy, Jr.
Chairman

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Border Trade Alliance

Position Papers on the North American Free Trade Agreement

Compiled by the Border Trade Alliance Membership
William F. Joffroy, Jr.
Chairman
P.O. Box 7049
3000 Mariposa Road
Nogales, Arizona 85621

Prepared by:
The Institute for Manufacturing and Materials Management
The University of Texas at El Paso
February 5, 1991

Preface

The Border Trade Alliance gratefully acknowledges the participation and assistance of more than 1,000 persons including members, committees, the Coordinating Council, and other organizations in the preparation of this document.

Our organization represents various manufacturing, customs, business development and private sector interests along the 2,000 mile U.S.-Mexico Border. The Border Trade Alliance hopes this document will assist in negotiations regarding the proposed North American Free Trade Agreement.

The Border Trade Alliance

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Trade Negotiation Issues

Transportation

1. Commercial motor carrier operations within Mexico's frontier and U.S. ICC Commercial Zones in border communities should be reciprocal. Access to the above areas should be unrestricted for both U.S. and Mexican commercial vehicles that are in compliance with the licensing, safety equipment, insurance and tax regulations of the respective countries (49 U.S.C. Sec. 10922 (1) (2) (B) (ii) and (iii) and the Ruiz Cortinas Decree of 1955).

2. Licensing of operators of commercial motor vehicles should conform with national driver's license programs, being developed in conformance with the Motor Carrier Safety Act of 1988.

3. U.S. and Mexican licensing regulations (federal and state) should be comparable.

4. Safety equipment standards for both countries should conform to requirements set forth in the Federal Motor Carrier Safety Regulations (U.S.C. 49).

5. Immigration visas for the operation of commercial motor vehicles within U.S. ICC Commercial Zones and Mexico's Frontier Zone should be recognized and issued. The provisions of the visas should be restricted to U.S. border ICC Commercial Zones and Mexico's Frontier Zone (U.S.C. Sec. 1101 [a] [15] [B]). U.S. drivers should be issued "visitante" (visitors) visas [Art. 50 de la Ley General de Poblacion; Art. 99 Fraccion III del Reglamento de la Ley General de Poblacion].

6. Insurance coverage for Mexican motor carriers must be the same as cargo and third-party liability insurance required by the U.S.-Canada Free Trade Agreement.

Justification:

Items 1-6: Reciprocity for motor carriers in the border commercial zones of Mexico and the United States is not equal. The lack of reciprocity represents a serious nontariff barrier to trade and increases, economically and unjustifiably, the cost of transborder transportation. Mexican drivers enjoy full and uniform access to all U.S. ICC Commercial Zones on the border. U.S. motor carriers do not enjoy equal and uniform access to Mexico's Frontier Zone. As a first step to free trade, equal, uniform access and operating regulations with border commercial zones of each country should be established for all motor carriers of the respective countries.

Agriculture

1. All duties in this sector must be eliminated.

2. The staging of duty elimination for specific products in this sector should reflect the degree of current protection, import sensitivity of an item and complementary production seasons. Some duties in this sector, however, could be eliminated immediately.

3. All import licensing requirements and quantitative restrictions in this sector should be eliminated.

4. There should be no restrictions placed on the use of countervailing duty or antidumping laws in order to oppose, when necessary, subsidized dumping or dumped imports.

5. The 20-year safeguard provisions for fresh fruits and vegetables contained in the U.S.-Canada Free Trade Agreement could be included in the U.S.-Mexico Free Trade Agreement.

6. All unreasonable or unjustified nontariff barriers to trade, such as phytosanitary requirements maintained by Mexico on kiln-dried lumber, should be eliminated immediately.

7. Pesticide and other chemical regulations need to be harmonized. Animal, plant and health regulations, as well as sanitary and phytosanitary standards, need to be based on genuine health and safety issues and not used as artificial barriers to control access to domestic markets.

8. The frequency of health inspections applied to imports from either country should parallel, percentage wise, the rate of inspections to which domestic producers are subjected. However, when specific documented information indicates abuse by producers in certain areas of either country, then inspection of these producers should be increased up to 100 percent.

Justification:

Fruit and vegetable production is an area that contains numerous import sensitive items. Any tariff protection needs to be based on economic logic and fair competition. Phase-out schedules should take into account complementary production seasons as well as the relatively higher cost of transportation in Mexico. Unfair advantage should not be given to the producers of either country via pesticide regulation, phytosanitary requirements, marketing orders or other means. Consumers of both nations should be rewarded with quality agricultural products at the lowest cost. U.S. investment in Mexican agricultural production would help stimulate efficient development.

Production-Sharing (Maquiladoras)

1. **Programs:** Mexico's production-sharing industry should be divided into two programs: export and domestic. Export maquiladoras would be exempt from national treatment, and import maquiladoras would be considered a domestic industry subject to national treatment. Existing maquiladoras could choose on a five-year option basis whether to become an export only industry or a fully integrated, domestic production-sharing company.

   A. **Program #1:** Maquiladoras would be export-generating companies only, prohibited from selling materials or components to Mexico's domestic economy.

      1. U.S.-Canadian Free Trade would provide the Rule of Origin requirements based on a minimum 60 percent U.S. or Mexican content with substantial transformation determined by requiring a change in "chapter" tariff classification to qualify.

      2. All maquiladora business operations and transactions should be conducted under free market rates of currency exchange.

      3. All U.S. and Mexican tariffs, quotas and import licenses applicable to production-sharing that qualify as free trade production should be eliminated immediately.

Justification:

Maquiladoras are cost centers intended to enhance the industrial competitiveness and promote economic development of U.S. and Mexican industries. Currently, maquiladora production is predominantly exported from Mexico. As an export industry, maquiladoras would continue to perform an economic development function including technology transfer and create jobs in Mexico's domestic economy.

   B. **Program #2:** Non-maquiladora production-sharing industries should be integrated into Mexico's domestic markets and should not be exempt from national treatment.

      1. Non-maquiladora production-sharing industries should have unrestricted access to Mexico's domestic markets.

      2. The U.S.-Canada Free Trade Agreement would provide the Rule of Origin requirements based on a minimum 60 percent U.S. or Mexican content with substantial transformation determined by requiring a change in "chapter" tariff classification to qualify.

      3. Non-maquiladora production-sharing industries should receive national treatment on all tariff and nontariff regulations, including taxes.

      4. All U.S. and Mexican tariffs, quotas and import licenses applicable to production-sharing that qualify as free trade production should be eliminated immediately.

Justification:

Non-maquiladora production-sharing industries are profit centers. The objective of these profit centers is to facilitate the industrialization of Mexico's domestic economy.

Tariffs

1. Tariffs should be eliminated on bilateral trade for all items in the tariff schedule; exceptions should not be permitted by either country.

2. Tariffs should be eliminated over a ten-year period. The import sensitivity of specific products or sectors should determine the speed of tariff elimination within the ten-year period.

Nontariff Barriers/Quantitative Restrictions

1. All quantitative restrictions, such as U.S. steel and textile quotas, as well as Mexican import licensing requirements for agricultural items, should be eliminated as quickly as possible.

2. The United States should immediately terminate the practice of counting U.S. material content under the textile and apparel quotas with Mexico.

Justification:

If quotas on items made with U.S. materials are eliminated, American textile manufacturers are likely to benefit through increased sales. If duties on U.S. materials sold in Mexico are phased out, Mexican businessmen and consumers could obtain products at a lower price. The impact on U.S. manufacturers will be negligible since prices in Mexico are generally higher or as high as U.S. prices. If a free trade agreement is reached, many offshore textile manufacturers from the Far East may relocate to Mexico to obtain access to the U.S.-Mexico market and take advantage of the economic situation. This should substantially increase opportunities for sales of U.S.-produced yarn and fabric. A ten-year phase-in period would allow time for adjustment.

Services

1. Mexico should be urged to adopt adequate laws to protect collateral and liens.

2. The requirement that newly incorporated companies in Mexico must maintain a balance accumulated in foreign currency during their first three years of operation should be eliminated immediately.

Rules of Origin

1. The rules of origin governing the U.S.-Canada Free Trade Agreement should be used as a basis for development of an improved system of identifying local content which will enhance trade between the United States and Mexico. This recognizes the experience of certain sectors (e.g., automotive and electronics) in meeting origin criteria in trade with Canada and other countries. These rules should be developed in a manner which limits administrative burdens and business expenses currently associated with the U.S.-Canada Free Trade Agreement.

2. A "Made in North America" label should be adopted as a legally accepted option.

Customs

1. As part of the free trade agreement, the United States and Mexico should establish a task force to standardize customs policies and procedures regarding the exchange of trade between the two countries.

2. A representative of the Border Trade Alliance should be appointed as a private sector adviser to the task force.

Justification:

The joint task force should specifically seek to establish common documentation, databases and clearance procedures. A free trade agreement between the United States and Mexico will undoubtedly increase trade between the two countries, increasing the workload for both U.S. and Mexican customs operations on the border. Customs agencies will continue to be challenged with the same issues and concerns: inadequate staff, longer hours of operation, inadequate facilities, outdated equipment, automated systems and the need for extensively trained data-entry clerks.

Visas and Immigration

1. The U.S.-Canada Free Trade Agreement's procedure for the temporary transfer of professional personnel between countries should be adopted. Special non-immigrant categories (E Visas) should be adopted for investors and business persons from the trade community.

2. Ease of access to non-immigrant visas (E Visas) for business purposes both in Mexico and the United States is essential for facilitating trade on both sides of the border and should be available to Mexican and U.S. nationals at all major airports and border crossings with a two- to four-hour application and issuance time.

3. Bilateral agreements dealing with the cross-border movement of agricultural workers should be liberalized and simplified without the requirement of labor certification.

4. Immigration visas for the operation of commerical motor vehicles within U.S. ICC Commerical Zones and Mexico's Frontier Zone should be recognized and issued. The provisions of the visas should be restricted to those zones. Mexican drivers should be issued B-1 visas (U.S.C. Sec. 1101 [a] [1] [B]) and U.S. drivers should be issued "visitante" (visitor) visas (Art. 50 de la Poblacion; Art. 99 Fraccion III del Reglamento General de Poblacion).

Justification:

Under free trade, the necessity for business travel will increase. Executives, managers and other professionals will need to travel to negotiate business deals, examine goods and facilities, service warranties and establish and supervise new operations. Free trade cannot effectively be implemented unless these human resources are granted easy entry.

Dispute Settlement

1. A simple and expeditious dispute settlement mechanism must be included in the agreement to deal with possible non-compliance with the provisions of the agreement.

2. The two governments should examine how to create a bilateral dispute settlement or arbitration mechanism to handle private commercial disputes between parties from the two countries.

Government Procurement

1. The United States should obtain the right for U.S. producers and service providers to bid on Mexican government contracts above a certain threshold ($50,000).

2. Products produced, manufactured or assembled in Mexico should be defined as eligible products under all U.S. government "Buy America" regulations.

Justification :

Border manufacturers and service providers believe they could successfully compete to fulfill Mexican government needs in areas such as computer equipment servicing, environmental services and textile products.

Intellectual Property

1. The United States should seek stronger patent, trademark and copyright protection in Mexico as of January of 1991.

Justification:
Strengthened intellectual property protection should lead to increased investment in the border region.

Energy

1. Mexico should open its petroleum distribution system in the Frontier Zone to U S.-produced fuels and lubricants beginning in 1993.

2. All commercial motor vehicles operating in Mexico's Frontier Zone and U.S. ICC Commercial Zones of border communities should be retrofitted and required to use clean fuels and lubricants by 1994.

3. Mexico's domestic markets must be opened to U.S. environmental technology, products, services and investment.

Justification:
The Border Trade Alliance believes the free flow of environmental services, technology and equipment that is likely to result from the free trade agreement will facilitate Mexico's current efforts to address the environmental problems stemming from economic growth.

Retail/Wholesale

1. The export requirement on U.S.-owned retailing in Mexico should be eliminated.

2. The procedures governing access to U.S. border communities for Mexican citizens should be simplified.

3. The application of the U.S. Antidumping law, the Robinson-Pattman Act (price discrimination), the Wheeler-Lee Act (advertising) and dealer restrictions as they apply to U.S.-Mexico retail trade should be reviewed.

4. The $400 limit on goods purchased for personal use imposed by U.S. Customs should be eliminated. This exemption would apply only to products manufactured in North America as determined by the Rules of Origin provisions of the agreement.

U.S.-Mexico Investment

1. The domestic transport industry (road, rail and air) of both countries should be opened to direct investment by individuals or companies from both nations. Mexico should immediately permit 49 percent foreign investment in the transportation sector, with majority foreign ownership in the sector permitted as soon thereafter as possible.

Justification:

Domestic transportation industries should have access to capital, equipment, management and operating systems available from either country. Mexican transportation companies require access to less expensive capital, efficient equipment, improved management and world-class operating systems. U.S. companies are seeking joint venture financial and operating arrangements with Mexican counterparts. The free flow of investment capital is essential to an efficient and cost-effective binational transportation system.

2. The United States should be able to obtain increased rights for foreign investors to own agricultural land in Mexico. In addition, there should be clarification and simplification of the right of foreign investors to lease *ejido* lands or to enter into joint ventures with the *ejidos*. These leases should be of sufficient duration to assure that U.S. investors are able to recover their financial investments as well as earn appropriate profits and provide sustained employment opportunities to communal farm workers.

3. All restrictions on investment, including environmental services, insurance, banking, after-sales installation and maintenance, should be eliminated.

Related Issues

The Border Trade Alliance believes that there are certain important issues that need to be addressed in conjunction with the negotiation of the free trade agreement. While the Border Trade Alliance does not consider these issues part of the agenda for the free trade agreement itself, these issues are important when considering the economic activity that should result from a U.S.-Mexico Free Trade Agreement.

1. **Infrastructure.**

The Border Trade Alliance recommends that the U.S. Administration and Congress develop and fund a program to address the following areas:

- Customs clearance and inspection facilities
- Transportation facilities (roads, bridges, etc.)
- Waste treatment and other environmental remediation facilities
- Housing
- Education and training

2. **Environment.**

The Border Trade Alliance recommends that increased personnel and financial resources be allocated by the U.S. Environmental Protection Agency to assist in its ongoing technical cooperation effort with SEDUE. In addition, the Border Trade Alliance urges that funding for water and waste treatment facilities be included in the infrastructure program mentioned above.

3. **Customs.**

- **Additional staffing and adequate training.**

The Border Trade Alliance encourages Congress to consider the appropriation of additional funds to staffing, equipment and training of U.S. Customs personnel. A Border Trade Alliance study has been presented to border congressional leaders, senators and to the Senate Appropriations Committee that points out the need for additional staffing and equipment at border facilities and the need for thorough training of personnel.

- **Clearance Procedures.**

Automated Systems must continue to be developed so that U.S. Customs can meet the demands of increased cargo movement across the Mexican border. Specifically, Border Cargo Selectivity, line release and tripartite programs should be upgraded technologically and expanded to include all export products. Also, U.S. and Mexican Customs should work on generating common statistical information. Shared customs facilities and joint examinations should be undertaken. These programs will facilitate the flow of commercial cargo by implementing one-stop Customs clearance for both the United States and Mexico.

- **Single Administrative Regions.**

A single administrative region for all U.S. agencies is required for effective planning and administration of ports of entry and other governmental programs for the border region. This would streamline planning and

administration of programs. Currently agencies define their regions differently and such geographical division complicates administration. U.S. Customs and the General Services Administration have difficulty planning and administering capital improvement programs due to different regions and administrations.

- **Extended Hours of Operation.**
  Hours should be extended to include holidays for both countries so that services can remain available 365 days a year. This will ensure that commerce is not disrupted and industry can meet just-in-time inventory requirements. A free trade agreement between the United States and Mexico has the potential to double or triple the volume of traffic at ports of entry. Mexican and U.S. Customs should extend their hours of operation for all shipments including quota release.

- **Ports of Entry.**
  The financing of port-of-entry facilities and staffing by federal agencies should be privatized. Public debt is not necessary to fund construction, maintenance and staffing of port-of-entry facilities. Public infrastructure, which has definable revenue bases (easily identified, predicted and controlled), should be financed by private funds.

- **Joint Task Force.**
  A joint task force on port-of-entry and border matters should be created to establish a long-range plan for port capital improvement projects (new and renovations) along the U.S.-Mexico border. Free trade requires the removal of barriers to trade. As long as both countries are committed to separate planning and management of ports of entry and the movement of transborder traffic, unnecessary barriers to trade will reside along the border. The solution to binational bureaucracy is joint planning and administration.

- **Classification of Hazardous Waste.**
  There is no U.S. tariff classification for hazardous waste that fits current needs. The current approach is to use chemical content to place value on waste, but this is an unsuitable method because it results in a classification with a high duty rate for something that has a negative value. (Companies must pay to dispose of this material.) A classification system that assigns no rate or an extremely low rate is needed.

- **Centralized Port Management.**
  The Border Trade Alliance recommends that a study be conducted to investigate the feasibility of one governmental agency assuming the management function for all southern border ports of entry. Currently, port-of-entry administration is divided among five or more federal agencies. Traffic is slowed because no single agency is responsible for the management and control of traffic. Consequently, primary lanes are not adequately staffed and traffic backs up. This study should take into consideration all concerns of each of the involved agencies, as well as those of the local community.

Chairman GIBBONS. Thank you very much.
Mr. Michie.

STATEMENT OF DONALD A. MICHIE, DIRECTOR, TEXAS CENTERS FOR BORDER ECONOMIC AND ENTERPRISE DEVELOPMENT, THE UNIVERSITY OF TEXAS AT EL PASO

Mr. MICHIE. Mr. Chairman, thank you very much. I appreciate the opportunity to appear before the committee and testify in favor of free trade with Mexico and Canada.

I am director of the Texas Centers for Border Economic and Enterprise Development at the University of Texas at El Paso. I am here today to present a Southwest border position on free trade, which we consider to be an opportunity to bring economic development to an economically depressed region of our country, and for us to accomplish that, we must have a development plan that reflects a combination of both private and public sector interests to eradicate what we consider to be a serious nontariff barrier to trade, that being the lack of infrastructure along the Southwest border with Mexico.

We are fully aware, Mr. Chairman, that an agreement such as the one contemplated is intended to benefit the economies of the participating nations, but not necessarily regions or localities such as the Southwest border with Mexico.

However, the effects of this agreement will be borne directly by our Southwest border. On the one hand, we will see an increase in the exchange of goods and services that will promote economic development along the Southwest border as a transshipment point.

On the other hand, however, this trade is going to burden the region's infrastructure, an infrastructure which already has shown tremendous stress; and unless we resolve that problem, that lack of border infrastructure will be a significant nontariff barrier to trade, eliminating the benefits intended for our national economies.

I do not have to describe for you the economic status of the Southwest border. We have discussed this before, in terms of the poverty that is present. I would just like to say that that poverty picture does not explain the whole story.

Really, the Southwest border has the resources to provide a total-cost-of-business which benefits American industry in the global economy. When you take the resource base of the Southwest border communities in the United States and integrate those with the resource base that is present in Mexico, we have a competitive total-cost-of-business environment; and, sir, the maquiladoras are clear evidence of that fact.

Furthermore, the Southwest border has attributes that are unique, unparalleled anywhere else in the world. We have a labor force that is youthful and abundant; we have the highest technology being developed and tested within the region; we have transportation and logistics that are first class in the world, and we have raw materials that are in abundant supply. What is lacking, though, is the infrastructure necessary to marshal these resources into an effective development plan.

I would like to continue my testimony by discussing what I consider to be the myths of Southwest border development, the first

being that our infrastructure is overburdened and growth must stop. Economic growth is the answer to our lack of infrastructure problem. We need new industry, cleaner industry, technicians and the tax base to address the problem. Unless we have economic growth, Mr. Chairman, we will not have the resources necessary to contribute to a solution. Zero growth offers nothing to the border.

Second, that maquilas are detrimental to the interests of both the United States and Mexico. The first corollary to that is that the maquilas cost American jobs. Information has been provided previously, very objective, from various sources which provide evidence of the retention of jobs within the United States and that the maquiladora industry is totally integrated into the economy of the United States.

I suggest that the real issue regarding production is sharing with Mexico ought to be focused on the rules of origin that are necessary to protect local content for North American industry.

The second myth deals with Mexico's minimum wage exploiting maquiladora workers. Quite to the contrary, the wage benefit package that is available through the maquiladoras in Mexico averages 20 to 40 percent better than what is available in Mexico's domestic economy. Second, less than 34 percent of the workers currently in the maquiladora industry are minimum wage workers. What we are seeing is an upward mobility that is brought to the domestic economy in Mexico as a result of production-sharing through the maquiladoran industry.

One of the tables in my testimony points out the importance of professional salaries that accrue to local nationals in Mexico. For local nationals in Mexico at the professional level, those salaries average 90 percent of what is paid to United States nationals that are a part of the plant management. That is truly significant within Mexico's domestic industry.

The third myth is that maquilas violate fundamental worker rights. Quite frankly, Mexican workers have more protection under Mexican law than do United States workers in the United States. The wages are fair within Mexico's domestic industry, as I have indicated. Work conditions in the maquiladora industry are excellent. Meals are provided—on average, 1½ meals a day to the workers. Health is provided within the plants, either in the form of nurses or doctors. And certainly, unionization within the industry is again protected by law. It takes but 20 signatures to have a labor board call for an employee election on the labor issue. That to me is evidence of significant protection.

A third myth, maquilas do not build infrastructure in Mexico. Well, they contribute to the housing tax; second, they make voluntary contributions to the communities. The objection that the industry has to further contributions to infrastructure is that where is the accountability mechanism on the part of Mexican officials as to how these funds are spent, and that is of real concern?

Lastly, that maquiladoras violate Mexico's environmental law. To the contrary, they are leading domestic industry in an attempt to observe and to enforce environmental laws. However, as far as the environment is concerned, the scope of the problem is clearly beyond the ability of the companies to control or to finance the solution. We are talking about an infrastructure that is lacking for

society as a whole, and this industry obviously cannot provide the resolution to that scope of a problem.

In conclusion, I would like to make four points: One is I think that the issue truly is industrial competitiveness and that the advantage of this agreement is the joining of complementary resources that maintain a competitive advantage for North American industry in the marketplace. I think that needs to be said.

Second, progress is change and displacement is a byproduct of change. Let us recognize those who are affected by this change and help them help themselves. Let us not take a status quo position. Status quo is going to have a negative consequence for the competitiveness of North American industry.

Third, free markets result in political, social and economic change. We have seen it in Eastern Europe, and we have seen it in Mexico. If we want to continue to have improvements within Mexico, then let us support the free market mechanism, which will bring about those kinds of improvements; and let us not undercut President Salinas' program to bring stable growth to Mexican society.

Lastly, let us recognize that the lack of infrastructure in the Southwest is a significant nontariff barrier to trade, which is detrimental to American industry, and let us work together to establish a comprehensive program that will address that problem.

Mr. Chairman, I recommend first that we move forward with the fast-track approval, and, second, that we have parallel discussions related to the nontrade issues, such as environment, health, and other areas.

Thank you.

[The prepared statement and attachments follow:]

TESTIMONY OF DONALD A. MICHIE

My name is Donald A. Michie. I am director of the Texas Centers for Border Economic and Enterprise Development at The University of Texas at El Paso. I am also a member of the boards of directors of the El Paso Foreign Trade Association, the Texas/Mexico Authority and the Border Trade Alliance. In these capacities, I am deeply involved in the industrial development of the Southwest border with Mexico.

The purpose of my testimony today is to present a Southwest border perspective on future free trade relations among the United States, Canada and Mexico. Free trade holds tremendous promise for the Southwest. If planned and managed correctly, the region, under free trade, will be a high-technology, production-sharing and logistics center for North American industry. For this to become a reality, however, free trade -- the agreement and its companion initiatives -- must benefit the region and address its needs.

The free trade agreement will be crafted for the national economy, and not necessarily for the Southwest border. The effects of the agreement, however, will be borne directly by the communities of the Southwest border states. The effects are clear. Free trade will increase the exchange of products and services that enhance border economic development; but free trade will also place a heavy burden on the region's infrastructure, one already under tremendous stress. Unless resolved, the lack of adequate infrastructure will be a significant non-tariff barrier to free trade and will pose limits on the positive effects of free trade for the nation's economy. Hence, free trade, the national issue, must address border infrastructure, the regional issue, if the promise of development is to be fulfilled.

THE SITUATION

From a national perspective it may be difficult to appreciate the promise of "quality of life" that free trade portends for the Southwest border with Mexico. Trade appears to be a global issue. Major trading blocks, including the European Community, the Far East and North America are engaged in intense industrial competition. GATT and bi-lateral trade dominate international commerce.

Global industrial competitiveness determines the ability of trading blocks, nations and industries to offer products and services at prices comparable to, or better than, others. Industrial competitiveness is a function of cost. An entity's total-cost-of-business must allow the price of its products and services to cover total costs, plus profits that allow a fair rate of return for investors and a reasonable standard of living for workers.

Within this scenario is positioned the Southwest border with Mexico, a poverty stricken region and, at best, a transshipment point for trade with Mexico. U.S. border counties exhibit per capita incomes well below the national average. Examples of border per capita incomes include $7,868 for Cameron, Texas; $7,839 for Presidio, Texas; $9,333 for Luna, New Mexico; and $14,362 for Pima, Arizona. Border county unemployment rates are high, ranging between 10 and 50 percent. The Texas counties of Starr and El Paso, for example, have unemployment rates of 50 and 12 percent, respectively. Border families live under intolerable poverty. In most counties, 25 to 50 percent of families earn less than $12,000 per year.

Opportunities for economic development are rare. Southwest border communities are predominantly transshipment points for trade with Mexico. Laredo and El Paso, Texas; Nogales, Arizona; and Calexico and San Ysidro, California, are communities dominated by trade service industries -- including transportation, customs house brokerages, financial and industrial parks. These are not labor-

intensive industries. Despite increased trade with Mexico, regional unemployment remains double-digit.

Finally, border infrastructure is overburdened. Infrastructure includes ports of entry, highways, housing, water, sewage, telecommunications, education and health. U.S. port facilities are understaffed. U.S. border community *colonias* lack adequate housing, water, electricity, education and health care facilities. Communicable diseases, including hepatitis, occur at eight or more times the national average. Thirty-five percent of the children and 85 percent of the adults residing in the San Elizario *colonia* of El Paso County are hepatitis victims. There, quality of life takes on Third World dimensions. Forty percent of El Paso's young adults are high school dropouts. Furthermore, border communities lack the tax bases necessary to resolve these problems. Service industries generate few revenues for public infrastructure and demography overburdens public resources.

This, however, is not the whole story. Southwest border communities, when integrated with sister communities in Mexico, possess total-cost-of-business environments that are competitive globally. *Maquiladoras*, utilizing these cost benefits, maintain industrial competitiveness and create jobs for American workers. A globally competitive total-cost-of-business environment has made Cd. Juarez, Chihuahua, Mexico and El Paso, Texas, the largest production-sharing and logistics center in the world.

Southwest business attributes are unique. Communities have abundant, youthful labor. Technology is readily available. In Texas and New Mexico, government installations such as White Sands, Sandia, Los Alamos and Fort Bliss test and develop the highest technology and latest composite materials. Transportation and logistical support are world class. Raw materials, including copper, are found in abundant supply. These factors help explain the promise of industrial development for the Southwest border. What prevents the promise from becoming reality is the lack of a "plan of action," a plan joining government and private industry in a partnership for border development.

THE MYTHS OF SOUTHWEST BORDER DEVELOPMENT

The Southwestern border with Mexico is becoming the "fall guy" in the debate for free trade. Opponents cite border issues, particularly the environment and Mexico's *maquiladoras*, as reasons not to proceed with free trade negotiations; but for the Southwest border, free trade is the best hope for development and the resolution of infrastructure problems.

To place border development in proper perspective, certain facts must be reviewed. First, Mexico is experiencing a financial crisis. Mexico's infrastructure is often inadequate because a) previous administrations had other priorities, b) existing investment capital is inadequate, and c) the demand for infrastructure caused by demography exacerbates the problem. The bill for infrastructure far exceeds Mexico's investment ability.

Second, Mexico's environmental law is not at issue. Enforcement, a financial problem, is.

Third, worker rights in Mexico are not an issue. Mexico's labor law provides more protection for workers than does U.S. law. Mexican workers have mandated social security, paid holidays, vacation premiums, Christmas bonuses, and severance and termination protection. They have benefits that include savings plans and loans, medical, meals, food coupons and transportation. *Maquiladora* workers earn a fair wage with benefits relative to domestic industry in Mexico. Upward job mobility is a fact of life.

And fourth, critics impose U.S. economic standards on Mexico. Supply and demand for labor determines wage rate differentials

between the United States and Mexico. Mexico must create about 1.0 million new jobs every year to employ new entrants into its labor force. Given this figure, wage rate differentials will remain for the indefinite future.

Despite these facts, certain myths abound:

Myth #1: Southwestern border infrastructure is overburdened; therefore, economic growth must stop. Actually, the solution to the infrastructure issue is investment, growth and development. Border communities need new and cleaner industries, skilled technicians and investment to create the resource base necessary to finance infrastructure. Local tax bases must expand. Zero growth offers no solution.

Myth #2: *Maquiladoras* are detrimental to development. Critics of free trade would have you believe that production-sharing with Mexico is detrimental to the interests of the United States and Mexico. Although refuted by objective investigation, the disinformation campaign continues. Corollaries to this myth include:

a) *Maquiladoras* cost American workers jobs. Economic growth and development by definition causes job displacement. Industrial competitiveness does cause business to relocate to lower total-cost-of-business environments. However, *maquiladoras* source materials predominantly from the United States, creating and retaining more jobs for U.S. citizens than are lost to Mexico. Furthermore, *maquiladora* production is totally integrated into the U.S. economy with significant employment benefits for the Rust Belt and other regions (Exhibit 1). These benefits have been fully documented by studies conducted by The University of Texas at El Paso, the U.S. International Trade Commission and the U.S. Department of Labor.

b) Mexico's minimum wage rates exploit *maquiladora* workers. The wage and benefit package paid minimum wage workers by *maquiladoras* is the best available in Mexico's domestic economy (Exhibit 2). The package includes a mandated, government-determined direct wage, plus benefits that are both compulsory and competitive. Compulsory benefits mandated by the government include social security, a paid housing tax, a vacation schedule, seven holidays, Christmas bonuses and vacation premiums. Competitive benefits, or those not mandated by the government, include attendance bonuses, food coupons, transportation, savings plans and meals. Minimum wage workers work 45 (1st), 42 (2nd) or 39 (3rd) hours, but are paid for 56 hours per week.

Basic differences occur with domestic industry in competitive benefits offered by *maquiladoras*, principally in attendance bonuses, food coupons, transportation and meals. These are not taxable to the worker and bring wages and benefits to $1.71 per hour (nationally). Further, minimum wage workers are becoming the exception in *maquiladoras*. They constitute only 34 percent of total *maquiladora* employment in Cd. Juarez.

c) Upward mobility is not possible in *maquiladoras*. As indicated, 66 percent of workers earn more than minimum wage and benefits. Furthermore, most management and professional positions are staffed by Mexican nationals. These positions carry

salaries that amount to approximately 90 percent of those paid to U.S. nationals. Exhibit 3 shows annual salaries paid Mexican professionals. In Cd. Juarez, some jobs pay higher salaries than those in El Paso, Texas. The jobs are traffic managers, warehouse supervisors and customs specialists.

d) *Maquiladoras* violate fundamental worker rights. Previous discussion dispels this myth. Workers are well protected by law. Wage and benefit packages are excellent by Mexican standards. Work conditions are generally world class. Meals and health care are provided. Unionization is opposed by management, but union organization efforts are protected by law. Unionization procedures only require 20 signatures for a labor board to require a worker election. Forty percent of *maquiladoras* are unionized. Management opposes unionization because it claims union self-interests often supersede employee benefits.

e) *Maquiladoras* do not build infrastructure in Mexico. *Maquiladoras* do contribute to infrastructure development in Mexico. The plants pay a 5 percent tax on payroll for housing. In addition, voluntary contributions are made to the Mexican communities for public projects. *Maquiladoras* resist further assessments because Mexican officials are often not accountable for expenditures, and infrastructure is built elsewhere with little direct benefit to workers.

f) *Maquiladoras* violate Mexico's environmental laws. *Maquiladoras* are leading domestic industry in efforts to observe and enforce environmental laws in Mexico. The scope of the problem, though, is beyond the ability of *maquiladoras* to control or finance. Entire communities lack infrastructure, including sewage and treatment facilities. The cost exceeds the financial capability of the national treasury. The solution awaits economic recovery, creative financing mechanisms, tax and political reform and community bonding authority.

U.S.-MEXICO BORDER: A DEVELOPMENT PLAN OF ACTION

Free trade is the vehicle by which the benefits of industrialization are likely to reach the Southwest border. Under a U.S.-Mexico agreement, a border development plan must include the integration of bi-national resources, provisions for the free trade agreement and companion legislation.

Integration of Bi-National Resources

U.S. and Mexican border communities form single trade areas divided by political boundaries. Exhibit 4 shows how the sister communities of El Paso, Texas, and Cd. Juarez, Chihuahua, Mexico, share a development plan. The trade area's total-cost-of-business is determined by its a) attribute base -- consisting of low-cost, productive labor, entrepreneurship, access to U.S. markets and high technology -- and b) infrastructure -- including port-of-entry facilities and staffing, basic business philosophy, investment capital, skilled technicians, health and education.

The attribute base reduces the costs of business; the lack of infrastructure increases these costs. However, the integration of these resources holds promise for a competitive position, unparalleled globally, as a high-technology, production-sharing and logistics center for North American industry. Promise becomes

reality if costs associated with infrastructure can be reduced.

Provisions for the Free Trade Agreement

The Southwest border position on free trade must be included in the agreement. The Border Trade Alliance position summarizes business experience with Mexico gathered from more than 1,000 border residents. Its provisions are recommendations on U.S. investment, tariffs, market access for products and services, rules of origin, customs procedures, intellectual property rights and other trade issues.

The recommendations also include recommendations for production-sharing with Mexico and suggestions for addressing environmental problems. Specifically, the BTA recognizes a role for Mexico's *maquiladora* program under free trade. The program's cost center benefits enhance the industrial competitiveness of North American industry. If improved by provisions that include free market currency exchange and access to Mexico's domestic markets, the program will become vital to Mexico's economic development.

Mexico's environment can be improved substantially if its domestic market is opened to U.S. technology, products, services and investment. These provisions ensure that the exchange of products and services across the international boundary are free of significant barriers to trade. Border development is enhanced by serving the increased trade associated with these provisions.

Companion Legislation

Free trade, the national issue, must be used to focus resources (federal, state and local) on the regional issue of border infrastructure. Inadequate infrastructure is a significant non-tariff barrier to trade that will limit the benefits of free trade for our national economies. Any program to address infrastructure must be comprehensive, bold and imaginative. The demand for infrastructure improvement is beyond the funding capabilities of public and private sectors, individually. Therefore, the program must join the resources of these entities.

I recommend the creation of a Southwest Industrialization Initiative to achieve the industrialization goals of the Southwest border with Mexico. The initiative should have several components:

Database Centers

Database centers for the Southwest border region would be funded to inventory regional credits and debits. Statistics would be maintained on border attributes, including trade information by individual port of entry, sourcing of materials by the *maquiladoras*, demographics, investments, business and service capabilities. technology transfer and employment.

The database centers would also inventory and prioritize infrastructure projects. Infrastructure would be classified by "definable" revenue base. Types with definable revenue bases such as port facilities and staffing, highways, and housing would be recommended for privatization. Other types -- including water, sewage, education and health -- would be financed by public funds. Database centers would reside at regional universities to take advantage of computers, faculty and student resources.

Professional Service Centers

Department of Agriculture Extension Offices and Colleges of Business and Engineering at regional universities would join to provide technology transfer and business services for industrial development. The database centers would be on-line with professional service centers to support business planning and operations.

New technologies available through government contract research and laboratories would be integrated into the system for transfer to private industry. For instance, North American industries would be encouraged to gain access to higher technology developed by Los Alamos, Sandia, Kirkland, White Sands and Fort Bliss for transfer to border industries. Production facilities could be established in foreign trade zones adjacent to these facilities to enable high technology consulting firms to transfer production technologies to manufacturers and to train management in those technologies. The tactic would bring capital investment, manufacturing of composite materials and higher-skilled employment to the region.

Southwest Border Development Bank

A major obstacle to border development is the lack of investment capital for business start-ups and expansion. A guaranteed loan program backed by government bonds should be created to raise capital to support border investment.

Rural Development

The battle for industrial competitiveness nationally has been fought in urban America. The effort to reduce total-cost-of-business has focused on international production-sharing in the Far East, Canada and Mexico. Yet, rural America has resources -- including tool and die, metal stamping and other services -- which may be sourced at less cost than those offshore. To date, no plan has been developed to integrate rural-based resources into American, non-agricultural industry.

The proposed Southwest Industrial Initiative will have this program as an objective. The database will seek to identify qualified firms in rural communities who serve agricultural and energy-related industries but can provide services to other manufacturing industries. The professional service centers will match rural-based firms with these non-agricultural clients. The objective is to integrate rural America into our national competitiveness program.

Infrastructure Funding

Creative financing must be developed for border infrastructure projects. The proposed database centers would inventory and prioritize infrastructure projects, recommending some for public financing and others for privatization. Federal and state dollars probably could finance water and sewage, environmental, health and education projects. Private dollars could finance ports of entry, transportation facilities, lease contract employees to governmental agencies and build toll roads.

Infrastructure User Fees

A comprehensive system of user fees should be developed to provide essential government services to support international commerce. The present system of agency-specific user fees which are deposited in the general treasury should be abandoned. This system is too costly and does not target funds for urgently needed services and infrastructure requirements. Fee structures should be restricted to debt retirement, capital reserves for maintenance, and fair rates of return on investment.

Southwest Border Free Trade Zones

Exhibit 5 outlines a program designed to attract investment to the Southwest border. The program establishes free trade zones within trade areas located on the border with Mexico. Commerce within the zones would be conducted without tariffs with minimum inspection by federal authorities. Inspection stations at Border Patrol checkpoints located at the fringe of the trade area (up to 60 miles from the port of entry) would be established. Traffic seeking

entry into the interior of the United States would receive thorough inspection within existing commercial import lots or at fringe inspection facilities. In El Paso, this program would reduce inspections of noncommercial traffic form 42.0 million per year to less than 6 million.

The objective of the program would be to eliminate poverty in, and industrialize, border communities. In addition, inspection facilities and staffing would be privatized just as Centralized Examination Stations (CESs) and staffing are today. Inspections by government agencies would improve because local traffic would be exempted. Drug interdiction would work because commercial shipments originating in border communities would be subject to inspection at fringe facilities. Border communities could no longer be staging areas for drug shipments.

The above recommendations outline a broad legislative initiative for Southwest border development under free trade. The initiative recognizes the need for information, professional outreach services and capital investment essential to industrial development. The Free Trade Enclave program creates an environment conducive to development. After decades of poverty, the Southwest border with Mexico deserves its day in the sun. Government and industry must join to bring the promise of free trade to the border.

Exhibit 1

MAQUILADORA IMPACT SURVEY: U.S. NATIONAL MAQUILADORA RELATED FACILITIES

Region/State	PARENT PLANTS Number	No. of Jobs	DIRECT CUSTOMERS Number	No. of Jobs	MAJOR SUPPLIERS Number	No. of Jobs	SUBTOTALS Facility	Jobs
New England	20	4369	25	6164	58	20525	103	31058
Connecticut	2	92	7	81	16	1178	25	1351
Maine	4	750	2	0	3	130	9	880
Massachusetts	8	2928	13	5748	25	18763	46	27439
New Hampshire	2	500	1	0	1	20	4	520
Rhode Island	4	99	2	335	10	228	16	662
Vermont	0	0	0	0	3	206	3	206
Middle Atlantic	30	6132	76	19253	121	5515	227	30900
New Jersey	8	695	19	5014	28	749	55	6458
New York	14	5013	32	11435	42	1972	88	18420
Pennsylvania	8	424	25	2804	51	2794	84	6022
South Atlantic	51	14893	51	37096	65	11586	167	63575
Delaware	1	4400	2	4000	4	360	7	8760
Florida	5	1603	17	21876	7	796	29	24275
Georgia	12	758	11	9410	11	2685	34	12853
Maryland	2	62	6	1222	1	7	9	1291
North Carolina	20	5853	10	578	22	4966	52	11397
South Carolina	6	1087	2	10	12	2345	20	3442
Virginia	3	1040	2	0	6	390	11	1430
West Virginia	2	90	1	0	2	37	5	127
East North Central	107	57243	149	165995	213	31128	469	254366
Illinois	44	17953	46	56588	84	9121	174	83662
Indiana	19	5868	20	30232	24	10497	63	46597
Michigan	18	14265	36	53718	40	3935	94	71918
Ohio	13	13607	30	16371	41	4620	84	34598
Wisconsin	13	5550	17	9086	24	2955	54	17591
East South Central	45	13756	28	20233	41	2788	114	36777
Alabama	4	1765	6	1530	5	1097	15	4392
Kentucky	6	1113	5	12471	7	805	18	14389
Mississippi	18	4960	4	147	8	315	30	5422
Tennessee	17	5918	13	6085	21	571	51	12574

MAQUILADORA IMPACT SURVEY: U.S. NATIONAL MAQUILADORA RELATED FACILITIES

Region/State	PARENT PLANTS Number	No. of Jobs	DIRECT CUSTOMERS Number	No. of Jobs	MAJOR SUPPLIERS Number	No. of Jobs	SUBTOTALS Facility	Jobs
West North Central	24	12321	51	69379	33	13513	108	95213
Iowa	2	2200	7	40665	7	12375	16	55240
Kansas	0	0	7	7029	3	55	10	7084
Minnesota	5	1585	12	2513	4	76	21	4174
Missouri	11	8210	21	17486	13	851	45	26547
Nebraska	4	216	3	19	4	115	11	350
North Dakota	1	100	1	1667	0	0	2	1767
South Dakota	1	10	0	0	2	41	3	51
West South Central	60	7119	62	20166	117	8142	239	35427
Arkansas	3	1205	7	777	5	238	15	2220
Louisana	3	155	6	375	2	50	11	580
Oklahoma	2	1008	4	7470	8	639	16	9117
Texas	52	4751	43	11544	102	7215	197	23510
Mountain	28	3192	23	2192	40	18248	91	23632
Arizona	22	2270	10	456	34	17906	66	20632
Colorado	4	292	6	1113	3	36	13	1441
Idaho	0	0	1	500	1	0	2	500
Montana	0	0	1	0	0	0	1	0
Nevada	0	0	2	3	0	0	2	3
New Mexico	1	330	1	0	2	306	4	636
Utah	1	300	1	0	0	0	2	300
Wyoming	0	0	1	120	0	0	1	120
Pacific	53	10091	68	66076	85	53263	206	129430
California	53	10091	56	45766	83	50253	192	106110
Oregon	0	0	5	20030	1	3000	6	23030
Washington	0	0	7	280	1	10	8	290
Various U.S. Sites	4	2500	14	365773	4	6195	22	374468
Canada	1	0	2	230	3	200	6	430
Other Foreign	3	270	1	400	0	0	4	670
TOTALS	426	131886	550	772957	780	171103	1756	1075946

Exhibit 2: Wage/Benefit Packages
Comparison Between *Maquiladoras* and Domestic Industry in Mexico

Items	Maquiladoras	Domestic Industry
Minimum Wage	Same	Same
Benefits:		
Compulsory (Mandated):		
Social Security	Same	Same
Housing Tax	Same	Same
Holidays (7)	Same	Same
Vacation Schedule	Same	Same
Christmas Bonus	Same	Same
Vacation Premium (15)	Same	Same
Competitive:		
Attendance	Common	Not Common
Food Coupons	Common	Not Common
Transportation	Common	Not Common
Meals (1.57 per day)	Common	Not Common

Source: Institute for Manufacturing and Materials Management
The University of Texas at El Paso

Exhibit 3: Professional Salaries
A Comparison of *Maquiladora* and El Paso Salaries by Position

Position	Salaries		
	1987	Maquiladoras 1990	El Paso 1990
Personnel Manager	$12,000	$23,400	$25-45,000
Chief Financial Officer	16,800	31,200	38-70,000
Director of Manufacturing	18,000	42,600	40-85,000
Materials Manager	16,800	24,600	38-71,000
Quality Assurance Manager	10,800	23,400	39-63,000
Engineer	13,200	25,800	*52-78,000

*Engineering Manager

Source: Institute for Manufacturing & Materials Management
The University of Texas at El Paso

Exhibit 4: Production Sharing Growth Opportunity (Industrialization)

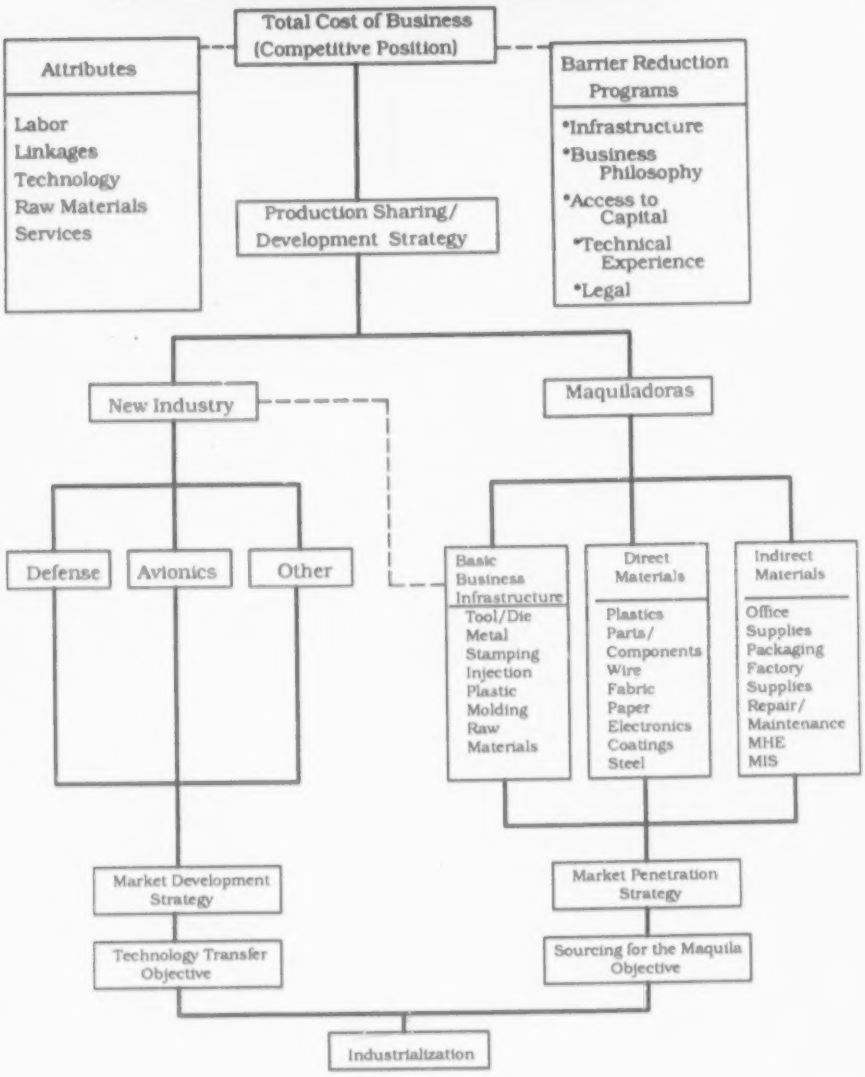


Exhibit 5

U.S.-MEXICO BORDER FREE TRADE ENCLAVES: A PROPOSAL FOR COMPANION LEGISLATION

The Issue

Inadequate infrastructure and industrial opportunities create a significant non-tariff barrier to trade along the U.S.-Mexico border. A bold, imaginative and practical program is needed to eliminate this barrier.

Recommendation

The United States should enact as companion legislation to the U.S.-Mexico Free Trade Agreement a provision for the creation of Free Trade Enclaves for select communities along the U.S.-Mexico border. Specific legislative provisions would include:

- **Geography.** A free trade enclave would be defined by the border community's trade area, not to exceed more than 90 miles from the principal border crossing into the interior of the United States.

  Justification. A free trade zone must encompass the primary trade area of the border community to reflect the community's principal trading base. U.S. Customs and Immigration and Naturalization Service procedures would be enforced at the fringe of the border free trade zone (trade area).

- **Geographic Isolation.** Border free trade enclaves would be established only for those communities sufficiently isolated by geographical distance and transportation to control traffic and trade entering and leaving the area.

  Justification. Geographic isolation is essential to the enforcement of government policy administering a free trade enclave. Extensive urban development and transportation systems would disqualify the border community from consideration. Isolated border communities such as Tecate and Calexico, California; San Luis, Lukeville, Sasabe, Nogales, Naco and Douglas, Arizona; Columbus and Santa Teresa, New Mexico; and El Paso, Presidio, Del Rio, Eagle Pass and Laredo, Texas, would probably qualify for consideration (Exhibit 1).

- **Free Trade Provisions.** The provisions of the Agreement would be implemented immediately within the free trade enclaves. Any extended timetable for reducing tariffs or in-vestment restrictions would be waived.

  Justification. The intent of the free trade enclave concept is to promote the industrialization and development of an impoverished region of the United States. Immediate implementation of the provisions of free trade would be a catalyst to attract private investment to isolated border communities, an element necessary for quality

development and the reduction of infrastructure limitations. Unless exempted from the extended timetable for these trade provisions, there would be no financial incentive for private industry to invest in border business and infrastructure projects.

Federal Regulation. Subject to the right to inspect and enforce the laws of the United States, primary administration of federal regulations would occur at the fringe of a free trade enclave.

(a) Inspection of commercial traffic by U.S. Customs would occur at existing border ports of entry and new facilities located at the fringe of the free trade enclave. Line release and secure cargo shipments from Mexico destined for interior locations would be cleared at the border and checked at the fringe customs facilities. Shipments originating within the U.S. free trade enclave and destined for U.S. interior locations would be inspected and sealed at either the border or fringe customs inspection facilities. Shipments traversing the free trade enclave but remaining within the territory of the United States would be inspected and sealed upon entry into the free trade enclave and checked upon exit.

(b) U.S. Customs and INS inspection of noncommercial traffic would occur principally at the fringe customs inspection facilities. Traffic from Mexico would be permitted egress and ingress rights to the enclave subject to the federal agencies' right of inspection. Traffic control and monitoring may be administered by a red-light, green-light inspection mechanism. All traffic entering the interior of the United States would be subject to thorough inspection and would require documentation.

(c) Immigration laws regarding employment of foreign nationals would be unchanged. Mexican and other foreign citizens seeking employment and residence within the border free trade enclaves would be required to obtain necessary visas.

(d) U.S. Department of Agriculture inspection requirements would remain unchanged. U.S. ICC Commercial Zones would remain intact.

Justification. The objective of these provisions is to minimize the regulation of traffic at congested ports of entry along the border with Mexico. Federal agents inspect more than 40 million people annually in El Paso, Texas. Most of these people enter the El Paso community to shop, visit relatives, or conduct business. There is little reason to subject these people to inspection, given the purpose of their trips. To preserve the right of inspection, a red-light, green-light inspection procedure could be installed at the border port facilities. Those entering the interior of

the United States, however, would be subject to rigid inspection at fringe customs facilities. These people total no more than 6 million per year. The effects would be to encourage local, transborder traffic, alleviate traffic congestion at border ports of entry and strengthen enforcement of traffic laws by people entering the interior of the United States.

- **Capital Improvements.** Capital improvements necessary to establish U.S. Customs and other agency facilities at fringe areas and interstate transportation facilities (and perhaps staffing) would be built and financed by private capital.

  Justification. Capital improvements for infrastructure - such as ports of entry, central examination stations, and other inspection facilities - should be financed by private capital. Public funding is insufficient to finance these projects. These facilities have definable revenue bases determined by the volumes of traffic. User fees would retire debt and provide a reasonable rate of return to the investors. A contract or licensing arrangement could direct a percentage of the revenue into the federal treasury.

Effects

The following benefits would accrue to the United States:

- **Efficient Flow of Commerce.** Traffic congestion at border ports of entry caused by inadequate port facilities and staffing would be eliminated by the free flow of noncommercial traffic.

- **Investment.** Private capital would be attracted to this proposal and would prompt economic development in an impoverished region of the United States. Private capital investment and development would reduce the need for publicly funded, welfare-related programs in the region. Public infrastructure would be financed privately with benefits and revenues received by the federal treasury.

- **Drug Enforcement.** Drug interdiction would be improved. Primary inspection of reduced volumes of traffic at fringe locations would provide time for more thorough inspection of vehicles. Movement of drugs would have to shift to isolated, non-free trade enclave locations on the border to avoid trade area inspections. Drugs could not be staged and shipped from border communities without great risk.

- **Regional Development.** The enclave concept would bring development to an impoverished region. The Southwest border could become a major production-sharing center for North American industry, creating and retaining jobs in other areas of the United States.

- **North American Industrial Competitiveness.** The concept would also integrate complementary, low-cost resources found in Mexico and the United States, thereby, enhancing price competitiveness of North American products and services.

- **Expanded Tax Base.** As a final benefit, free trade enclaves would generate economic development, new companies would be formed and existing businesses would find it profitable to move to the border. Such economic growth would, in turn,

expand the tax base, allowing for quality growth, and community and environmental improvement.

Situation

In 1990, U.S.-Mexico trade exceeded $55 billion. Mexico ranks as the third largest U.S. trading partner behind Japan and Canada. The United States ranks first among Mexico's trading partners. If free trade is negotiated, U.S.-Mexico trade is expected to double or triple prior to the turn of the century.

U.S.-Mexico trade can be categorized into two primary components: the direct exchange of products and services, and production-sharing. The former represents international markets for domestic production within the respective countries. The latter represents industrial competitiveness, i.e., a joining of resources including capital, technology and labor to produce price-competitive products for sale on the global market. Production-sharing is, therefore, a business strategy designed to enhance the industrial competitiveness of North American industries.

Industrial competitiveness is a function of the total cost of doing business. Higher business costs reduce the price competitiveness of North American products and services relative to other foreign products and services. Barriers to trade increase these costs with the resulting loss of market share, sales, and ultimately, jobs for American workers.

The lack of adequate infrastructure along the U.S.-Mexico border significantly contributes to higher costs and the loss of price competitiveness for U.S. and Mexican products. Because of inadequate infrastructure, exports and imports incur higher costs, including transportation and storage services. Production-sharing firms also pay higher costs.

Infrastructure problems that cause these cost increases include the lack of facilities and resources to improve border ports of entry, water and sewage services, health care clinics, transportation lines, education institutions, technology transfer services, telecommunications operations, waste disposal services, and air quality problems.

It must be noted that there are other non-tariff barriers caused by bureaucratic redtape associated with federal regulation of trade. These include port administration, customs clearance policies and procedures, and documentation issues. These must be addressed through administrative rulemaking.

The lack of adequate infrastructure is caused by financial burdens on border communities. Public funding alone is insufficient to address the problem. Other means, including the privatization of facilities and staffing, must be found to finance the myriad of projects. A viable financial program requires a compilation of infrastructure needs. Infrastructure projects must be classified according to "definability" of revenue bases. Projects that have clearly definable revenue bases are suitable for privatization, such as the creation of ports of entry and their staffing. User fees could finance these infrastructure projects.

The benefits of U.S.-Mexico free trade must accrue to the Southwest border. Free trade is a national issue intended to benefit our national economies. The direct effect free trade will, however, be experienced by Southwestern border communities and states. If the

Southwest border does pose a barrier to free trade, bold, imaginative initiatives must be undertaken to bring the benefits of free trade to the region.

Summary

Why propose a legislative initiative for the Southwest border? First, the lack of border infrastructure affects trade between our national economies. If that trade is to be efficient, border infrastructure problems must be solved.

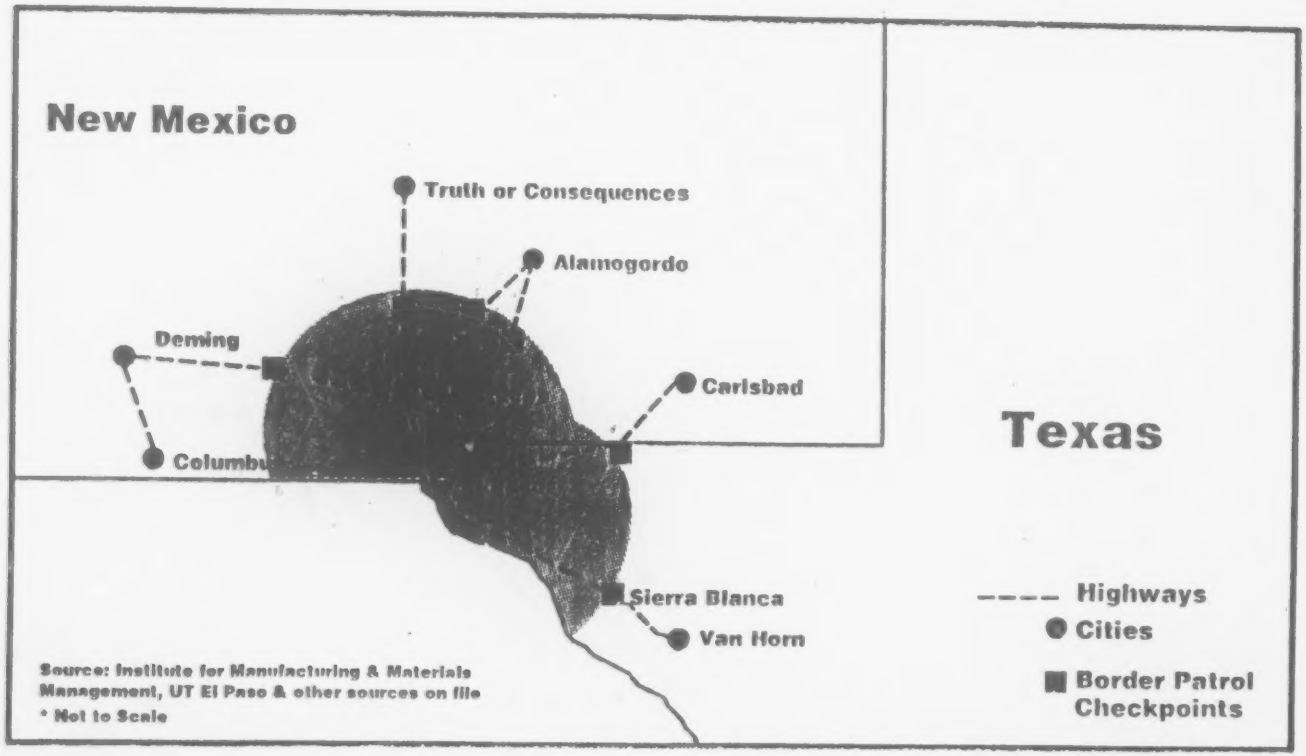
Second, the Southwest border counties rank among the most impoverished in the United States. Per capita incomes of border counties don't begin to approach the national average. Families below the poverty level exceed 25 percent of all families. Unemployment rates range from 10 to 50 percent. High school dropout rates exceed 40 percent. Free trade, if managed effectively, provides the development opportunity to help eradicate these problems.

Finally, the benefits of free trade will not automatically accrue to the border communities or states. Production-sharing, a $15 billion border industry, has created service jobs and sold real estate, but the problems of unemployment and poverty persist. Industrialization and high-quality jobs did not result from production-sharing. If the border is to benefit from free trade, a proactive program that includes special provisions within the agreement, companion legislation for development and administrative rulemaking to minimize bureaucratic redtape must be undertaken. The border has the responsibility to bring the Southwest Industrialization Initiative to the attention of government and industry decision-makers.

- Prepared by the Institute for Manufacturing and Materials Management, University of Texas at El Paso

Exhibit 1

Paso del Norte Free Trade Enclave: An Example



Chairman GIBBONS. Thank you, Dr. Michie.
Mr. Merrett.

STATEMENT OF RONALD H. MERRETT, DIRECTOR, OFFICE OF INTERSTATE NATURAL GAS MARKETS, DEPARTMENT OF ENERGY, MINERALS AND NATURAL RESOURCES, STATE OF NEW MEXICO

Mr. MERRETT. Mr. Chairman, my name is Ronald H. Merrett. I am director of the Office of Interstate Natural Gas Markets for New Mexico's Department of Energy, Minerals and Natural Resources.

First, let me thank you for the opportunity to be here and present the views of the department on the negotiation of a free trade agreement between the United States and Mexico.

I should make it clear that my mandate is to protect the position of the oil and gas industry in our State. It is a very important industry in our State, which borders Mexico and has over 600 independent oil and gas producers, as well as a dozen or so major companies operating there.

Our interest is, therefore, in the cross-border movement of oil and gas, possibly in the cross-border movement of electricity, and certainly in the cross-border movement of capital and technology.

Only this morning, I understand from a member of the USTR staff that there are no plans for energy issues to be on the table in this free trade agreement negotiation. In my view, energy issues are of such importance to the United States, of such importance to Mexico, and of such importance to my State, that they must be on the table in negotiating this free trade agreement.

I have indicated in my formal written testimony that we were not completely happy with the way that energy issues were handled in the free trade agreement with Canada, and I would urge that a different approach be adopted in this negotiation.

By the time the proposed Canadian agreement came to our attention under the fast-track process, it was too late for us to have any real impact. Today, we live with the results. I would say, however, Mr. Chairman, that we do support this free trade agreement and, as you yourself remarked yesterday, there are substantial long-term benefits. It is a win-win situation for both sides, and we agree with that.

However, we would only support the fast track if the negotiators are fully knowledgeable on energy issues and can be advised by a broad industry and government group, as is recommended in my written testimony. We believe that energy issues must be on the table from the start.

There are three main energy-related recommendations which we have in our testimony. First of all, there must be foreign investment opportunities for U.S. investors, a matter which Mr. Dexter Baker referred to yesterday, as you recall.

Second, we are seeking truly competitive markets for oil and gas and fair competition. Again, as was mentioned yesterday, the Pemex situation makes that a little difficult at the moment.

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Third, we want to see a clear mechanism for resolution of disputes in the agreement, and that is something I mention which we do not clearly have in the Canadian case.

Finally, I think it should be mentioned that energy issues I believe are so dissimilar in many respects to petrochemical issues, that they should be dealt with separately and not all bundled together.

Mr. Chairman, I thank you very much for the opportunity to be here to testify and I ask that my written statement be accepted for the record.

Chairman GIBBONS. Fine.

[The prepared statement and attachment follow:]

Statement of Mr. Ronald H. Merrett
Director of the Office of Interstate Natural Gas Markets
New Mexico Department of Energy, Minerals, and Natural Resources

Before the Subcommittee on Trade
Committee on Ways and Means
U.S. House of Representatives

Mr. Chairman and Members of the Committee my name is Ronald H. Merrett. I am the Director of the Office of Interstate Natural Gas Markets of the New Mexico Department of Energy, Minerals and Natural Resources. I would like to thank you for the opportunity to present the views of DEMNR on the negotiation of a free trade agreement between the United States and Mexico.

The DEMNR has regulatory authority over oil and natural gas drilling and production in the State of New Mexico. The Secretary of the DEMNR is appointed by the Governor and serves as a member of the Governor's cabinet. The DEMNR promotes production of New Mexico's energy resources and supports measures which enhance the wise use and balanced conservation of those resources. New Mexico is a major producer of clean, domestic natural gas, and production from the state serves distribution companies, consumers and industrial markets in California, and throughout the southwest and midwest regions of the United States.

A free trade agreement with Mexico will have a significant impact on the economy of New Mexico. This impact is especially critical for the energy sector of the State's economy. Not only will an FTA directly affect energy production in New Mexico -- especially oil and natural gas -- but, energy consumption patterns could be altered substantially as other industrial sectors expand or contract their domestic operations as a result of marketing opportunities, or lost markets, under an FTA. These implications for the economic welfare of the state of New Mexico energy industries warrant the full consideration of energy issues at the earliest stage of negotiations for an FTA.

We understand that no decision has been made regarding the inclusion of energy as an issue for consideration or negotiation in the talks between the U.S. and Mexico. The DEMNR urges the immediate inclusion of energy issues in the talks. We also urge the establishment of a formal task group comprised of U.S. energy producers, pipelines, marketers, local distribution companies, refiners, state regulatory agencies and others to work directly with U.S. negotiators to ensure full consideration of vital energy issues in the FTA process. We need only to review the history of the U.S./Canada FTA to realize that energy must be on the table now.

In the talks leading to the U.S./Canada FTA, energy was largely ignored until the very final stages of the negotiations. Even then, energy was treated, as an editorial in the January 17, 1990 issue of Natural Gas week describes, as a "Johnny-come-lately" issue. I ask that a copy of this editorial be included in the record of this hearing. The result, of course, is that many U.S. natural gas producers feel that they got the short end of the stick on energy trade provisions. The bad feeling over the mistreatment of energy issues in the U.S./Canada FTA process still lingers, causing needless friction and controversy. In fact, the continued and growing controversy over rates for transportation of Canadian natural gas to U.S. markets threatens both U.S. and Canadian producers and continues to be a thorn in the side of U.S./Canadian relations.

The impact of a U.S./Mexico FTA on energy is too large to ignore energy issues in its negotiation. A number of critical issues must be addressed. Foremost is the issue of subsidies and unfair price discrimination. The government of Mexico provides deep subsidies to its natural gas producers. U.S. producers could

be placed at a major disadvantage if this issue is not addressed in the FTA. New Mexico, which sells 80 percent of its natural gas into the California market, is deeply concerned that unless addressed this issue could stimulate bitter acrimony between the U.S. and Mexico.

Similarly, under Mexico's two tier pricing system, Mexico's energy monopoly, Pemex, sells natural gas domestically at prices far below the world market. We are concerned that artificially low priced natural gas could lure U.S. customers to Mexico and away from current U.S. suppliers. Today 80 percent of the gas produced in New Mexico is sold in the California market, much of which could be vulnerable to Mexican competition. We cannot ignore the imbalance that could result if U.S. producers, subject to world market competition, are suddenly exposed through the FTA to artificially low price competition.

This issue of pricing discrepancies cannot be ignored. Also important is whether the FTA will address the current Mexican prohibition against foreign investment in Mexico's domestic energy industry. Joint ventures and long-term leases are just two of the approaches that can be taken consistent with Mexican energy security and the legitimate interests and expertise of U.S. investors and companies. The FTA talks must address this issue or opportunities for fair and truly free energy trade will be lost.

As mentioned previously, the DEMNR recommends that producers, pipelines, marketers, local distribution companies, refineries, and state regulatory agencies should be invited to become active participants in the FTA talks. We further recommend that the following issues be placed on the table for immediate discussion:

- Mexican restrictions on foreign investment in Mexico's energy sector and whether joint ventures, long-term leases and similar mechanisms will be permitted so that the expertise and financial resources of U.S. investors can be brought to bear to stimulate untapped potential.

- Whether U.S./Mexican energy trade will take place in the context of competitive markets or unfair subsidies.

- A dispute resolution mechanism must be developed which clearly states which segment of the United States federal government will resolve any disputes arising between the U.S. and Mexico related to energy issues. The failure to make such a designation has been a source of problems between the United States and Canada.

We urge the Congress to support these policy objectives. The war in the Mid-East has again forced us to focus on issues related to U.S. national energy security. We have an unprecedented opportunity to structure a North American energy market which would provide major benefits to the U.S., Canada and Mexico. We could very well forfeit this opportunity if the current talks continue to exclude energy issues.

Thank you for the opportunity to present our views. I will be happy to answer any questions.

New Mexico Wants Energy in Trade Talks

When the U.S.-Canada Free Trade Agreement (FTA) surfaced in 1988, it was presented to Congress on a fast-track basis that required an up-or-down vote with no line-item alterations.

Although the FTA had been in negotiations before then, private interest groups were not privy to much of this discussion. And when the treaty agreement became known, it was too late for substantive changes. One result: Some U.S. natural gas producers felt they got the short end of the stick on the energy trade provisions.

Now, at least one state — New Mexico — has taken action to see that its producers won't be caught in the same trap in the U.S.-Mexico FTA talks. Pipeline manufacturers also have put in their two bits, and so have two environmental groups.

The background is short and simple: Last Sept. 9, Mexico's President Salinas formally requested that the U.S. and Mexico begin negotiations on a Free Trade Agreement. Twenty days later, President Bush notified Congress of his intent to enter into trade negotiations with Mexico.

At the same time, the House Ways and Means Committee and the Senate Finance Committee asked the U.S. International Trade Commission (ITC) for information on the implications of this FTA. On Oct. 17, the ITC published a *Federal Register* notice seeking comments with a deadline of Nov. 26, later extended to Dec. 11. The ITC report to Congress is due Feb. 1.

More than 100 comments were filed, nearly all on non-energy subjects such as trade in agricultural and glass products and color televisions. Only three seemed directly to touch on natural gas and oil trade, and only the comments of New Mexico's Department of Energy, Minerals and Natural Resources specifically sought to include natural gas trade and projects in the negotiations.

As it stands now, the Mexican constitution prohibits foreign investment in petroleum operations. Thus far, the Mexican government has said that energy issues will not be on the bargaining table.

However, Ronald H. Merrett, director of the New Mexico energy department's Office of Interstate Natural Gas Markets, told me that his group had heard from "private individuals" that "maybe the Mexican [petroleum] industry was not totally set against energy coverage in the agreement."

Thus, Merrett says, "we felt it appropriate to raise this issue [because] we have a great deal to gain, or there could be certain risks."

The bottom line, he says, is that New Mexico wants to "get in on the ground floor" in the U.S.-Mexico talks, unlike its Johnny-come-lately position on the Canadian negotiations.

While Merrett has some areas of concern, he says he has not formed specific bargaining positions, in part because a new state administration comes in on Jan. 1 and in part because his purpose now is to just get a place at the negotiating table.

As with Canada, New Mexicans are worried that less-expensive Mexican gas will come into the United States. He says the Mexican government's subsidies insulate Mexican natural gas from the rigors of the market, and that U.S. gas buyers could turn to supplies from south of the border. Merrett notes that 80% of New Mexico's natural gas goes to California, which shares a border with Mexico as does New Mexico. In addition, he worries that industrial buyers of New Mexico's gas could migrate to Mexico. Merrett also favors allowing New Mexico's petroleum industry an opportunity to do business in Mexico.

New Mexico's comments to the ITC were prepared and filed by law firm Katten Muchin Zavis & Dombroff and its affiliated Legislative Strategies Inc., which had advised Merrett to get in on the process as early as possible.

In the formal submission, New Mexico's energy department says that the U.S. should "not agree" to excluding energy from the talks, calling such an exclusion "short-sighted."

New Mexico also says that manufacturers in Mexico "enjoy a pricing mechanism" in which Pemex, the government oil and gas monopoly, sells energy for domestic use at prices below the world market. Merrett says a "fundamental issue arises" in how to address the pricing discrepancies between the U.S. and Mexico. "Unless the Mexican government's subsidized pricing scheme is addressed in a straight-forward manner," says Merrett, "United States energy producers will be unduly disadvantaged as their industrial markets relocate."

Merrett also suggests joint ventures in energy projects, perhaps as a way "to recognize Mexico's fundamental policy of protecting ownership of its valuable natural resources and at the same time open the Mexican oil and natural gas industry to the expertise, equipment and capital available in the United States." He says the FTA talks should include "[d]evices other than foreign ownership, such as joint ventures and long-term lease arrangements."

In the U.S.-Canada talks, energy was not a big issue overall for the negotiators. But in talks with Mexico, says Merrett, the U.S. team "should include individuals with a broad, in-depth understanding of the economic forces driving the domestic natural gas and oil industry." He adds that "producers, pipelines, marketers, local distribution companies, refineries, [and] state regulatory agencies ... should be invited to become active participants with federal government officials" in the FTA talks.

In other comments, the Committee on Pipe and Tube Imports, represented by lawyer Roger B. Schagrin, seeks immediate elimination of tariffs on all pipe and tube products rather than phased-out tariffs as agreed to with Canada. It also would eliminate "restrictive Mexican government procurement laws and practices" to "ensure U.S. goods equal access to all Mexican markets, including state-owned companies." Behind this is the fact that Pemex is the largest purchaser of pipe in Mexico.

Finally, Friends of the Earth filed comments by the National Wildlife Federation (NWF) opposed to including energy in the trade talks. The groups say that while the U.S. "is willing to go to war for oil," it has refused to reduce its oil dependence by actions such as the Senate's rejection of a bill to boost automobile fuel efficiency. NWF notes that "many" U.S. and Mexican economic analysts "say that Pemex eventually will go to the table," but NWF opposes energy talks because "Secure access to foreign oil would reduce incentives for the U.S. to lower its fossil fuel consumption."

—John H. Jennrich

Chairman GIBBONS. Mr. Merrett, what problem did we cause in the Canadian agreement for the producers in your area?

Mr. MERRETT. The main issues are somewhat technical, Mr. Chairman, and relate to a gas pipeline rate structure. The Federal Energy Regulatory Commission has declared itself unable to deal with these, because they are international issues and they are not being dealt with by the State Department or any other agency, so they are kind of left hanging, and we feel that this is not a very satisfactory arrangement.

Chairman GIBBONS. The Federal Power Commission does not get involved in them at all?

Mr. MERRETT. Not to my knowledge, sir.

Chairman GIBBONS. Dr. Michie, how are workers paid generally, and what are they paid in the maquiladora operations along the border there? Would you outline for me what their rates of pay are and their bonuses and all the fringe benefits?

Mr. MICHIE. A wage benefit package in the maquiladora industry consists of the direct wage, Mr. Donahue was correct, it ranges, depending on the devaluation, anywhere from 60 to 80 cents an hour, that is correct. However, there is also a benefit package which brings the total wage benefit package for the worker to $1.71 per hour, on average.

The benefit package is divided into two segments, the first being the compulsory or mandatory benefits that are required by the Government. These include social security, the housing tax, a minimum of 7 paid holidays in Mexico—and by the way, the industry averages about 2.5 additional holiday days in Mexico—a vacation schedule that is based on seniority, but generally starts with a 6-day annual vacation for the worker, a Christmas bonus which is a 15-day situation, and then a vacation bonus which again is based on seniority, and it amounts to 25 percent salary of the total vacation days that accrue to the worker. That is mandated by Mexican labor law.

The second component of the benefit package is what we term the competitive benefits. In this particular instance, we are talking about an attendance bonus, which can be significant. One company, as an example, provides 1 day's pay for each full week worked. Now, a full week in the maquiladora industry, on average, is a 45-hour week, but the worker is paid under law for 56 hours in total.

Second, the industry provides food coupons as a common benefit to the workers. The cost of that averages about $8 a week. I might add, while I am talking about these competitive benefits, that these competitive benefits are uncommon in the domestic industry and this is where you get the additional wage benefit package to the maquiladora worker that does not accrue to the domestic employee in Mexico.

There is a transportation benefit, which helps defray the cost of public transportation to the workplace, and this normally is in the range of $1.50 to $2 a week to the worker.

Meals are provided, on average, about 1.5 per day per worker. The cost of the meals are subsidized by the plants to the tune of approximately 80 to 90 percent. Now, the reason they do not pay for the total cost of the meal is that it would become taxable. So,

with the employee paying for a small portion, then he does not have to declare that as a benefit.

Finally, there is a savings plan benefit that is used by most of the industry, in which the company matches the savings that are set aside by the worker. The worker has access to those savings immediately, and the cost of that to the plant normally runs about $2.50 a week.

Under Mexican law, you also have very strict rules regarding severance, and the industry basically is responsible in the case of severance without cause for 90 days pay, plus 20 additional days for a year's service. That, in essence, is the total package, and it comes out to roughly $1.71 an hour, which is about 20 to 40 percent higher than what is available in domestic industry.

Chairman GIBBONS. What can you tell me about Mexican labor unions?

Mr. MICHIE. I can comment from the standpoint that the industry, in general, is opposed to the unionization of the workers, even though the mechanism is clearly protected under law. The general sense that I have from the plant managers that I deal with on a regular basis is they are not opposed to unionism per se, they are opposed to unions, in essence, imposing the union on the workers, because the general feeling is that the benefits accrue to the union and not necessarily the worker.

Chairman GIBBONS. Is there a right in Mexico to freely organize a workplace?

Mr. MICHIE. That is correct, Mr. Chairman. Again, in a plant in Mexico, if 20 of the employees sign a petition to unionize and take that to the labor board, the board will then require a worker election, shut the plant down for 5 days in preparation for that election.

Chairman GIBBONS. There is a lot more I need to learn about all of this before it is over and I am sure I will find it out somewhere along the road. I appreciate all of you coming today.

Mr. MERRETT. Mr. Chairman, if it would be helpful, I would be glad to clarify in writing the problems we have with the Canadian Free Trade Agreement.

Chairman GIBBONS. Fine. I would like to know that. Perhaps we can do something about straightening those out in this negotiation.

Mr. MERRETT. Thank you, sir.

[The following was subsequently received:]

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

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March 6, 1991

The Honorable Sam M. Gibbons, Chairman
Trade Subcommittee of the Ways and
Means Committee
1136 Longworth House Office Bldg.
United States House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

During my testimony before the Subcommittee on Trade of the Ways and Means Committee on February 21, 1991, I noted problems arising from the United States-Canada Free Trade Agreement impacting energy. In response to your questions, please accept for the record this supplement to my testimony which more fully details those problems.

The United States-Canada Free Trade Agreement fails to address with any specificity the issue of natural gas imports and exports and how each country's regulated rates could affect natural gas markets. The rate treatment of natural gas imported from Canada has proved to be a contentious issue which producers, pipelines, local distribution companies, consumers and state utility commissions are addressing in proceedings before the Federal Energy Regulatory Commission (FERC).

Before FERC, in cases involving Canadian natural gas imports to California and the Northeast (primarily the Iroquois Pipeline Project, FERC Docket Nos. CP89-634, *et al* and Pacific Gas Transmission Company cases, FERC Dockets CP89-460 and RP90-109), parties have attempted to reconcile the different rate treatment of costs associated with Canadian production of natural gas. Prevailing Canadian rate design allows for the recovery of certain production costs through pipeline demand rates. On the other hand, the FERC generally does not allow for such treatment of producer costs on domestic interstate pipeline rates. See *Natural Gas Pipeline Company of America*, 37 FERC ¶ 61,215 (1986), *reh'g* 39 FERC ¶ 61,218 (1987) (Opinion No. 256-A). The end result finds domestic producers disadvantage in those cases where interstate pipelines propose to flow-through Canadian production costs on an as-billed basis.

In their attempts to alter interstate pipeline rates designed to provide an unfair advantage for the recovery of Canadian natural gas production costs, New Mexico and other parties have met with only frustration at FERC. Citing the United States-Canada Free Trade Agreement,

FERC insists that it cannot influence Canadian rate design and it refuses to mitigate the unfair advantage imported Canadian natural gas receives through transportation rates on interstate pipelines to domestic markets.

New Mexico welcomes free trade built on fair competition. The example involving Canadian natural gas production does not encompass fair competition because of the rate advantage afforded imported natural gas supplies. The FERC refuses to take steps to correct the unfair result and the United States-Canada Free Trade Agreement is silent as to how to correct the problem. Instead of market forces determining gas sales, regulated rates are skewing the market. As the United States and Mexico commence the negotiation of a FTA, experienced negotiators must bear in mind the unresolved problems involving the United States and Canada. The production, sale, transportation, and regulation of natural gas and other energy commodities must be fully addressed by the negotiators. Only with full and active participation in the negotiation process of experienced negotiators and representatives of all segments of the energy industry can the problems associated with energy that characterize the Free Trade Agreement between the United States and Canada be avoided.

The importance of including a full consideration of energy issues during negotiation of a United States-Mexico Free Trade Agreement is underscored by the recent inclusion of Canada in the process. Canadian participation in the talks between the United States and Mexico may lead to an expanded scope of the negotiations resulting not in just a United States - Mexico Free Trade Agreement but in a North American Free Trade Agreement. Movement towards a North American Free Trade Agreement should include an opportunity to consider potential problems related to energy between the United States, Mexico and Canada and an opportunity to correct energy related problems now existing between the United States and Canada.

Mr. Chairman, thank you for the opportunity to supplement the record as to this vital issue of importance to the citizens of the State of New Mexico.

Sincerely,

Ron Merrett

Ronald H. Merrett
Director of the Office of
Interstate Natural Gas Markets

Chairman GIBBONS. Thank you very much for coming. We appreciate it.

Now, the Amalgamated Clothing and Textile Workers Union, Joan Suarez; the Rubber and Plastic Footwear Manufacturers Association, Mr. Cooper; the Broom Manufacturers of the United States, Mr. Libman; and the National Organization for Raw Materials, Inc., Mr. Huenefeld.

Ms. Suarez.

STATEMENT OF JOAN SUAREZ, VICE PRESIDENT AND MANAGER OF THE SOUTHWEST REGION, AMALGAMATED CLOTHING AND TEXTILE WORKERS UNION, AFL-CIO; ACCOMPANIED BY ARTHUR GUNDERSHEIM, DIRECTOR, INTERNATIONAL TRADE

Ms. SUAREZ. Mr. Chairman, my name is Joan Suarez. I am vice president and manager of the southwest region of the Amalgamated Clothing and Textile Workers Union, ACTWU. I appreciate this opportunity to appear before the subcommittee to present the views of our union on the proposed United States-Mexico Free Trade Agreement.

ACTWU, I believe as you know, Mr. Gibbons, represents about 250,000 workers concentrated primarily in the men's and boys' clothing, textile, leather and footwear industries, but we also have growing and significant membership in auto trim, medical products, photocopying equipment industries, and so forth.

In our view, the proposed free trade agreement with Mexico represents an historically unparalleled experiment in economic integration. Never before have countries of such disparate levels of economic development contemplated the kind of trade liberalization proposed by Presidents Bush and Salinas.

Given the unprecedented character of this experiment, it is likely effects are difficult to anticipate in any real detail. However, we can anticipate that, for good or ill, it will have far-reaching implications for living standards in both of our countries, and through its effects on living standards, this experiment will profoundly influence the prospects for lasting justice, peace, and stability in the region.

We at ACTWU are convinced that, in the absence of explicit measures to improve economic, social, and environmental standards in Mexico, simple trade liberalization will surely undermine those same standards in this country, in the United States.

A decade of economic crisis, "structural adjustment," and stagnation in the debt-burdened economy of Mexico has drastically educed their living standards, increased economic inequality, and aggravated social tensions that threaten the democratization process in Mexico.

We are asked by the proponents of a free trade agreement to believe that simply liberalizing trade between the two countries will reverse the perverse flow of capital out of Mexico, restart growth and development, and yield other benefits equitably distributed, within and between, the two countries.

We in ACTWU are skeptical of that, sir. Increased trade will undoubtedly play an important part in any viable plan for Mexico's development, but trade alone will hardly suffice to alleviate Mexi-

co's economic crisis or sustain meaningful long-term economic development, and I think we have heard from other folks today who have appeared on these panels about some of the other kinds of concerns that, in turn, at least in part I will address.

In the absence of meaningful debt relief, generous foreign aid, and labor and environmental standards, a free trade agreement with Mexico will, in our view, lower wages and reduce living standards in both the United States and Mexico; retard genuine economic development in Mexico and further subordinate the Mexican economy to the United States economy; and undermine, rather than strengthen, long-term competitiveness in the United States.

I think the most obvious difficulty in successfully integrating the economies of the United States and Mexico is the enormous and growing disparity between the two countries.

Just a little while ago, you were asking of Professor Michie what he could tell you of wages and working conditions and trade union conditions in Mexico.

Our Bureau of Labor Statistics reports that for every dollar paid, on average, by manufacturers to production workers in the United States, manufacturers in Mexico pay 12 cents. In the maquiladora sector, manufacturers pay 6 cents, less than they do across Mexico as a whole. In the maquiladora sector, the 6 cents is direct compensation, wages, that is, but beyond that, the average compensation costs in Mexico have fallen 20 percent. So, if you are talking of $1.71, that is 20 percent less relative to those in the United States since 1982, there has been a decline in those compensation costs.

I have lived and worked along the border for 25 years. I think I have a slightly different perspective on what those shanties are that Mr. Joffroy was talking about mean along the border on the other side. We are looking at the situation that began and has escalated since the Mexican Government began its program of frontier development back in the early 1960's and complimented by our 806 and 807 of the United States Tariff Code, of bringing folks from the interior of Mexico in great numbers to the border, an infrastructure now that is so heavily inundated by population and lack of schools, lack of sewers, lack of water, the conditions are deplorable.

You know, I can remember here in our own country 10 to 15 years ago walking the streets of the city of New York and not seeing homeless, and today it is impossible to walk the streets of the city of New York and not see homeless. What I am suggesting to you is that the kind of situation that we have helped to create, both in New York and on the order of Mexico, is becoming intolerable on both sides of the border, that we have social tensions rising on the other side of the border that simply will not be addressed by just liberalization of trade, that there must be a much more thorough and a much broader approach, if in fact we are to find solutions to those problems.

With labor and other social standards off the table in the proposed negotiations, and with a vast and growing surplus population of workers in Mexico, there is little hope that the current wage differentials will soon be reduced by rising Mexican wages. Instead, we can expect wholesale displacement of U.S. industrial workers, something that has been attested to here, I think generally recognized and accepted, that if FTA goes through, there will be dis-

placement of U.S. industrial workers. As manufacturing activity is shifted to Mexico, we can expect continuing pressures on the wages, working conditions and living standards of United States workers under the threat of plant closings, and those things again have been addressed here today.

We need to bear in mind that there are 2 million fewer industrial jobs in the United States today than there were 10 years ago, and that average wages of industrial workers have fallen 10 percent over the last decade. The wages of young, male high school graduates have fallen 28 percent in this country since they peaked in 1973, and are now at their lowest level in a quarter of a century.

Employment should grow somewhat in Mexico as a result of a free-trade agreement, but even here the news obviously again is not all good for the Mexican workers. With immigration off the table in the negotiations at United States insistence, there is little hope, even under the most optimistic growth assumptions, that increased industrial employment in Mexico will make even a dent in the vast and growing population of impoverished Mexican workers. And with labor standards also off the table, this time at Mexican insistence, the chronic surplus of potential workers will continue to limit Mexican wage growth.

Whatever development takes place in Mexico as a result of trade liberalization will, therefore, contribute little to raising living standards in Mexico, and the continuing large differential between wages in Mexico and those in the United States will surely disappoint those who expect Mexican immigration to subside as a result of the free trade agreement.

There is little reason to believe that turning Mexico into one vast maquiladora, as one Mexican academic characterized Mexico in terms of describing the aftermath of a free trade agreement, will serve the long-term national development needs of Mexico. The Salinas administration eschews the trade and industrial policies used so successfully by the East Asian NIC's to assure progressive industrial development, trusting instead to the market. In the absence of such policies and with wages depressed by chronic labor surpluses, it is easy to imagine for the country as a whole the kind of immiserizing growth so characteristic of the maquiladoras themselves now.

Finally, we are convinced that a free-trade agreement with Mexico, by offering a low wage option to United States corporations as an answer to their very real competitiveness problems, will undermine our corporations' ability to deal effectively with those problems in the long run.

Instead of addressing the questions of product quality, customer service and productivity that alone will allow our corporations to meet Japanese and German competition and insure a high and rising living standard for workers, United States corporations will likely pursue the short-term competitive advantage offered by easily available low-wage Mexican workers. Whether this strategy works or not for individual companies short term, for the country as a whole, from our perspective, it is an economic cul-de-sac.

ACTWU recognizes that the United States, Mexico, and Canada are being integrated economically and that this integration is likely to continue. It is perfectly obvious that, with or without a

free trade agreement, integration will continue. The important question is the form of integration and whether or not it will improve or undermine living standards and economic development prospects in the region.

The lessons of the maquiladora program is that trade liberalization by itself, under the conditions prevailing in the region, is likely to undermine living standards in the north and foster subordinated development in the south. Incidentally, this is also the lesson, in our view, of the Caribbean Basin Initiative and the proliferation of free trade zones throughout that region.

Instead of limiting the discussion of regional integration to a series of free trade agreements, we should be broadening it to include the discussions and conclusions of agreements around meaningful debt relief and foreign aid, immigration, labor, and environmental standards, all of those things that you have heard about all day today, sir. Broadening the agenda, we believe, is crucial for integrating the region in a way that does not undermine living conditions in the United States and that affords a genuine prospect for nonsubordinated development in Mexico.

Thirty years ago, President Kennedy called for a comprehensive development plan for Mexico and all of the Americas. Though his plan was never developed or implemented, such a plan is exactly in our opinion what is called for today. Unfortunately, from our perspective, the Bush administration seems determined to restrict the negotiating agenda with Mexico as much as possible to a narrow free-trade agreement.

Rather than rushing to embrace the President's narrow trade agenda with Mexico, we believe the Congress should exercise its authority to consider carefully the many complex and potentially momentous implications of regional economic integration for the future welfare of people throughout the region. For this reason, in ACTWU's view, the Congress should deny fast-track authority to the President to negotiate a free trade agreement with Mexico.

Thank you.

Chairman GIBBONS. Thank you, Ms. Suarez.

Mr. Cooper.

STATEMENT OF MITCHELL J. COOPER, COUNSEL, RUBBER AND PLASTIC FOOTWEAR MANUFACTURERS ASSOCIATION

Mr. COOPER. Thank you, Mr. Chairman.

It is always a pleasure and often a challenge to be before this committee.

Chairman GIBBONS. We always welcome you here, Mr. Cooper.

Mr. COOPER. Thank you, sir.

I am here today in behalf of the Rubber and Plastic Footwear Manufacturers Association. This is the association that represents the vast majority of domestic producers of rubber protective footwear and fabric-upper footwear with rubber or plastic soles.

I should point out that among the members of this association are the only two companies in this country which manufacture the chemical boots worn today in the gulf.

This association opposes the negotiation of the free trade agreement with Mexico, Mr. Chairman, and I should point out that

when we were here a few years back on the question of negotiating a free trade agreement with Canada, my client stood aside. The difference between a free trade agreement with Canada and a free trade agreement with Mexico, as you have heard ad nauseam, of course, is the remarkable difference in labor standards between the two countries.

The situation regarding Mexico is that there, according to the publication World Footwear, the Mexican hourly minimum wage for a 48-hour week is the equivalent of something less than 52 cents. With total labor cost considered, all fringe benefits, the best information that we have been able to gather is that in the footwear industry in Mexico, the labor cost averages approximately 74 cents an hour.

Contrast this, if you will, with the figures provided by the Bureau of Labor Statistics, which show that the average hourly earnings for rubber and plastic footwear employees in the United States, in November 1990, was $6.75. If you put in fringes, certainly the average labor cost of the people I represent runs in excess of $10 an hour, or more than 15 times what the average is in Mexico.

When one considers that labor costs in domestic rubber footwear plants runs well in excess of 40 percent of total cost, the incentive to shift operations to Mexico, were there to be duty free treatment, becomes irresistible.

We should note that Mexico already has a well-established rubber footwear industry. In 1988, Mexico produced some 245 million pairs of shoes, of which 34.5 million were exported, and, interestingly, the vast majority of Mexican exports, 30.2 million of those 34.5 million, were rubber and canvas shoes.

The World Footwear Survey of March–April 1989 has an interesting piece on the Mexican footwear industry, which concludes with the following language, and I am now quoting:

> Mexico is on the verge of becoming a major footwear exporter. It has upgraded its quality, it is improving its technology, its wage levels are competitive, and it is actively seeking a share of the international market.

It has been successful in so seeking. According to the International Trade Commission's most recent footwear quarterly statistical report, Mexico is now the third largest exporter to the United States of fabric-upper footwear with rubber or plastic soles, and it is the seventh largest exporter to the United States of protective footwear.

As you well know, Mr. Chairman, rubber footwear is a high tariff industry in this country. The duties on protective footwear are either 25 percent or 37.5 percent, depending on the product. The duties on fabric upper rubber sole footwear run roughly from 20 percent to as high as 65 percent, and they average over 40 percent.

Nonetheless, as you also know, rubber footwear is an enormously import sensitive industry: 74 percent of its domestic market today has been captured by imports.

The very fact that the duties are high, needless to say, makes the consequences of introducing a free trade agreement with Mexico all the more catastrophic for an industry such as this.

Let me point out as a footnote, if I may, although it is not directly relevant to the subject that we are discussing today, that although rubber footwear has admittedly high duties, those duties have been examined and reexamined by the U.S. Government time and again. Since I started to represent this industry in 1964, we went through the Kennedy round, the Tokyo round, perhaps we are going through the Uruguay round. The duties were not cut in either the Tokyo round or the Kennedy round.

I will say to you, Mr. Chairman, that if in fact—and the reports seem to indicate that it is a fact—the Uruguay round is to be revived, the United States Government, to its credit, has given every indication of treating this industry with a scalpel, rather than with a hatchet. The Mexican Free Trade Agreement would indeed put the hatchet to the industry.

I want to show you an example of what we are talking about, if I may. I would be happy to make these available to you, either to leave them with you or, if you do not want the record to be burdened, I will have them in my office and if Mary Jane or George or somebody wants to call me, I will be happy to bring them down so that they can be examined more closely.

The boot on my right, the red one, is manufactured by Karsam, a prominent manufacturer of protective footwear, and indeed one of the two manufacturers of the chemical boot that I mentioned earlier.

The boot on my left is a knockoff of the boot on the right. It is an attempt to copy it by a Mexican manufacturer. Volume discount stores in the United States retail this boot at approximately $19.99. It is a $20 boot. The Mexican boot is retailed at $14.98, about $15, and that is with a duty of 37.5 percent.

Karsam is wondering whether it is going to be able to continue to offer this boot in the present set of circumstances. There is no question what will happen if the 37.5 percent duty on this boot is eliminated.

The administration has come to you or is about to come to you, presumably, with its request for fast-track treatment. We think, Mr. Chairman, that having now taken 4 years in the Uruguay round to work with the administration in trying to help structure a footwear offer which would not devastate what is left of the domestic industry, that the 6-month period of time to be allowed for consideration of a much more drastic agreement, a free trade agreement, is nowhere near adequate to permit the kind of consideration that should be given to the very problems that I have enunciated to you.

We hope that you will deny fast-track authority. Indeed, we would oppose the negotiation of the free trade agreement, since there is not the flexibility there that would be offered were we talking about a bilateral negotiation, where one can consider a product-by-product effort, rather than a total effort.

For all of these reasons, Mr. Chairman, we would urge you to go slow if you go at all. Thank you.

[The prepared statement and attachment follow:]

TESTIMONY OF THE RUBBER AND PLASTIC FOOTWEAR MANUFACTURERS ASSOCIATION IN OPPOSITION TO A FREE TRADE AGREEMENT WITH MEXICO

My name is Mitchell J. Cooper. I am counsel to and am appearing in behalf of the Rubber and Plastic Footwear Manufacturers Association (RPFMA), the spokesman for the manufacturers of most of the protective footwear and rubber-soled, fabric-upper footwear produced in this country. The names and locations of these companies appear in Appendix I.

For the reasons set forth below, RPFMA opposes the negotiation of a free trade agreement with Mexico to the extent that such negotiation encompasses either protective footwear or rubber-soled, fabric-upper footwear.

It should be noted that when the views of the private sector were solicited on negotiating a free trade agreement with Canada, this Association took no position. The situation regarding Mexico is, however, significantly different from the situation regarding Canada in one important respect: labor costs in Mexico are substantially lower than those in the United States, whereas labor costs in Canada are reasonably close to those in the United States. Rubber footwear is a highly labor-intensive industry and a meaningful advantage in labor costs is more likely than almost any other factor to determine a given producer's location. Tariffs - currently at 25% and 37.5% for protective footwear and ranging from 20% to in excess of 65% for rubber-soled, fabric-upper footwear - are the means by which a "level playing field" is approximated for rubber footwear competition from low labor-cost countries.

In the case of Canada, the Agreement which was negotiated recognized the import-sensitivity of rubber footwear and stretched the period over which tariffs would be eliminated to the ten year maximum. While the industry feels that it can adjust to Canadian duty-free competition over that period of time, the labor-cost differential in the case of Mexico is too large to permit any such adjustment. The publication World Footwear, in its March/April 1989 survey of Mexican footwear manufacturers, reported that as of January 1, 1988, the Mexican hourly minimum wage for a 48-hour week was the equivalent of about $.516. The best information we have been able to obtain reveals an average hourly wage in the Mexican footwear industry of about $.56 without fringes and $.69 with fringes. The addition of other benefits brings the Mexican labor cost up to approximately $.74 an hour.

In November 1990, the Bureau of Labor Statistics reported average hourly earnings of $6.75 for rubber and plastic footwear employees in the United States; this is the most recent earnings figure currently available. Among domestic manufacturers who would be adversely affected by free trade with Mexico, many have average hourly earnings, including fringes, well in excess of $10, or more than fifteen times the average in Mexico. When one considers that labor cost in domestic rubber footwear plants runs in excess of 40% of total cost, the incentive to shift operations to Mexico, were there to be duty-free treatment, becomes irresistible.

Mexico already has a well-established rubber footwear industry which could easily meet the needs of U.S. manufacturers. Consider the following data from the March/April 1989 World Footwear survey: The footwear industry in Mexico has about 500,000 workers with plants located principally in Leon, Guadalajara and Mexico City. The country claims to have more than 4,600 footwear manufacturers; of these, about 2,200 factories have fewer than 100 workers, 1,800 factories have between 100 and 300 workers, and 610 factories have over 300 workers. In 1988, Mexico produced some 245 million pairs of shoes of which 34.5 million were exported. Interestingly, the vast majority of Mexican exports - 30.2 million pair - were rubber and canvas. During that year, Mexico imported about 15 million pairs of shoes of which only 3 million were fabric.

Prominent among the Mexican manufacturers are three factories of Bata, a world-wide, state-of-the-art producer. These factories alone employ nearly 3,000 workers, and one of them produces more than two million pairs of tennis or similar shoes annually by the injection molded method.

The World Footwear survey concludes with the following language:

> "Mexico is on the verge of becoming a major footwear exporter. It has upgraded its quality and it is improving its technology. Its wage levels are competitive, and it is actively seeking a share of the international market."

In its most recent Non-Rubber Footwear Quarterly Statistical Report, the International Trade Commission lists Mexico as the third largest exporter to the United States in 1989 of fabric-upper footwear with rubber or plastic soles. Those exports totaled 23,883,000 pairs (Appendix II). As for protective footwear, in 1989, Mexico was the seventh largest exporter to the United States with 178,000 pairs (Appendix III).

Illustrative of Mexico's ability to compete successfully in this market is a plastic, fleece-lined, over-the-foot boot introduced to the marketplace in 1988 by Kaysam, a New Jersey manufacturer. This boot was recently copied by a Mexican exporter. Volume discount stores in the United States retail the Kaysam boot at about $19.99 and the Mexican boot at $14.98. The volume wholesale price of the Mexican item is approximately $1.75 per pair less than the Kaysam item. The Mexican boot currently takes a duty of 37.5%. Were a free trade agreement to eliminate that duty, the price differential between the domestic and Mexican boots is likely be so great as to eliminate the domestic boot from the market place.[1]

The rubber footwear industry in the United States is highly import-sensitive. In 1989, imports took 74% of the domestic market for footwear with rubber or plastic soles and fabric-uppers (Appendix IV) and 39% of the market for protective footwear (Appendix V). This is a relatively small industry whose production employment fell from 26,300 in 1972 to 9,000 in 1989; the figures for the first eleven months of 1990 show employment falling below the record low figure for 1989 (Appendix VI). The industry's plants are located principally in small communities where their employees would have difficulty in finding other work. The largest employer is the Converse plant in Lumberton, North Carolina. Other facilities with significant numbers of employees are in Wisconsin, Illinois, Maine (three plants), Massachusetts (two plants), New York (two plants), New Jersey (two plants), Pennsylvania, West Virginia and Georgia. Without exception, the companies who run these facilities are now beset by imports. For many of them a free trade agreement with Mexico would require the closing of domestic operations and the shifting of production to south of the border.

The enthusiasm which has been voiced at the highest levels of both the United States and Mexican Governments has provided momentum in the direction of free trade. The Administration is requesting that Congress deal with any free trade agreement resulting from negotiations with Mexico on a so-called fast track requiring action on an all or nothing basis. At the very least, we urge that Congress reserve unto itself the right to deal with any such agreement on a time schedule which would provide ample opportunity for testimony by affected industries and flexibility to amend the agreement in accordance with the weight of the testimony.

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[1]While we are not burdening the record with an introduction of physical exhibits of the two boots, samples of them are in the office of the undersigned and will be made available upon request.

APPENDIX 1

RUBBER AND PLASTIC FOOTWEAR MANUFACTURERS ASSOCIATION
(February, 1991)

Converse, Inc.
One Fordham Road
North Reading, MA 01864

Draper Knitting Co., Inc.
28 Draper Lane
Canton, MA 02134

Endicott Johnson
1100 East Main Street
Endicott, NY 13760

Frank C. Meyer Co.
585 South Union Street
Lawrence, MA 01843

Franklin Plastics
113 Prosaic Avenue
Kearney, NJ 07032

Genfoot America, Inc.
The Old South Building
11th Floor
294 Washington Street
Boston, MA 20108-4675

Kaysam Corporation of America
27 Kentucky Avenue
Paterson, NJ 07503-2597

Kaufman Footwear Corporation
700 Alicott Street
Batavia, NY 14020

LaCrosse Footwear, Inc.
P.O. Box 1328
LaCrosse, WI 54602-1328

New Balance Athletic Shoe, Inc.
38 Everett Street
Allston, MA 02134

Servus Rubber Co., Inc.
P.O. Box 36
Rock Island, IL 61204-0036

Tingley Rubber Corporation
P.O. Box 100
S. Plainfield, NJ 07080

Table 7.--Fabric upper footwear with rubber or plastic soles: 1/ Quantity of U.S. imports for consumption, by principal sources, January-September 1988-90, July-September 1988-90, and annual 1988-89

(In thousands of pairs)

Source	January-September			Percentage change, Jan.-Sept 1990 from Jan.-Sept 1989	July-September			Percentage change, July-Sept 1990 from July-Sept 1989			Percentage change, 1989 from 1988
	1988	1989	1990		1988	1989	1990		1988	1989	
China	45,385	73,226	95,868	30.9	15,487	18,196	15,641	- 14.0	62,362	95,251	52.7
Republic of Korea	31,939	25,414	26,104	2.7	9,982	6,755	6,343	- 6.1	48,378	33,848	- 16.2
Mexico	18,592	18,983	13,492	- 28.6	5,805	6,036	4,328	- 28.3	25,473	23,883	- 6.2
Taiwan	11,372	16,714	14,253	- 14.7	2,829	3,784	2,997	- 20.8	13,274	20,618	55.0
Thailand	3,163	3,199	4,964	55.2	988	582	1,356	133.0	3,808	3,835	0.7
Hong Kong	4,288	9,994	3,423	- 42.9	1,284	1,419	1,007	- 29.0	5,311	7,738	45.5
Philippines	364	353	835	136.5	245	45	214	375.6	506	518	2.4
Spain	662	982	684	- 24.2	138	173	129	- 25.4	752	1,073	42.7
Malaysia	182	344	409	18.9	21	87	88	1.1	226	346	53.1
Israel	34	136	216	58.8	32	98	81	- 18.0	148	164	17.1
Dominican Republic	284	108	90	- 16.7	281	61	77	26.2	512	197	- 61.5
Sri Lanka	1,080	459	557	21.4	378	89	65	- 27.0	1,195	529	- 55.7
Indonesia	51	211	559	164.9	58	8	35	0.0	214	313	47.2
Italy	185	209	137	- 34.4	58	43	22	- 48.8	129	254	98.4
Yugoslavia	14	8	25	212.5	18	8	18	0.0	14	8	- 42.9
Pakistan	8	8	14	75.0	8	3	13	333.3	8	47	8.8
France	131	184	55	- 70.1	29	49	11	- 77.6	174	196	12.6
United Kingdom	61	65	16	- 75.4	11	28	9	- 67.9	84	73	- 13.1
Japan	111	106	118	11.3	23	21	6	- 71.4	284	128	- 41.2
Portugal	11	17	8	- 52.9	1	8	4	0.0	37	18	- 51.4
All Other	467	708	487	- 31.2	242	183	23	- 87.4	833	1,058	22.9
Total	118,341	147,276	162,321	10.2	37,739	37,611	32,478	- 13.7	157,654	190,076	20.6
CBI total	492	381	174	- 54.3	388	161	77	- 52.2	818	627	- 22.6
EC total	982	1,483	918	- 38.1	233	312	181	- 42.0	1,190	1,731	45.5

1/ Includes footwear with fabric uppers and soles of rubber or plastics, such as sneakers, joggers, and certain casual shoes.

"SOURCE: Compiled from official statistics of the U.S. Department of Commerce.

APPENDIX III

Table 10.--Protective footwear: Quantity of U.S. imports for consumption, by principal sources, January-September 1988-90, July-September 1988-90, and annual 1988-89

(In thousands of pairs)

Source	January-September			Percentage change, Jan.-Sept 1990 from Jan.-Sept 1989	July-September			Percentage change, July-Sept 1990 from July-Sept 1989			Percentage change, 1989 from 1988
	1988	1989	1990		1988	1989	1990		1988	1989	
Republic of Korea	3,626	1,990	2,818	1.4	1,500	1,117	940	- 15.8	4,248	2,524	- 40.6
China	891	1,070	1,660	55.1	533	475	541	13.9	1,276	1,452	13.8
Taiwan	982	1,233	826	- 33.0	489	624	325	- 47.9	1,242	1,484	19.5
Canada	347	498	842	71.8	153	292	267	- 8.6	455	828	82.8
Yugoslavia	269	268	360	34.5	145	127	148	16.5	435	527	21.1
Italy	44	66	93	40.9	28	43	86	100.0	71	96	35.2
El Salvador	126	172	98	- 43.7	109	117	82	- 29.9	153	196	28.1
Thailand	113	68	183	71.7	48	43	81	88.4	177	92	- 48.0
Malaysia	42	98	137	39.8	16	54	59	9.3	52	119	128.8
Mexico	68	154	59	- 61.7	26	131	49	- 62.6	115	178	54.8
Brazil	127	23	61	165.2	71	12	36	200.0	184	91	- 50.5
Hong Kong	215	145	92	- 36.6	96	49	36	- 26.5	226	166	- 26.5
Israel	18	25	39	56.0	7	18	12	20.0	32	38	18.8
Netherlands	27	11	15	36.4	0	1	11	0.0	32	11	- 65.6
Germany	24	27	29	7.4	13	7	7	0.0	40	28	- 30.0
All Other	140	221	119	- 52.3	49	166	28	- 83.0	200	315	57.5
Total	7,005	6,873	6,545	7.8	3,189	3,277	2,786	- 17.4	8,943	8,154	- 8.8
CBI total	126	270	98	- 66.7	109	215	82	- 61.9	153	326	113.1
EC total	187	181	172	- 5.0	65	105	114	8.6	231	226	- 10.0

SOURCE: Compiled from official statistics of the U.S. Department of Commerce.

APPENDIX IV

SHOES WITH RUBBER OR PLASTIC SOLES/FABRIC UPPERS (SIC 30210 10)
(Figures in Thousands of Pairs)

	Production	Exports	Imports	Consumption	%Imports
1989	76,800	10,200	190,100	256,700	74.0
1988	76,700	900	157,700	233,500	68.0
1987	71,000	800	119,500	189,700	63.0
1986	57,900	1,000	99,100	156,000	64.0
1985	54,900	800	84,800	138,900	61.0
1984	64,516	1,120	107,685	171,865	62.7
1983	78,054	1,203	102,662	180,019	57.0
1982	92,896	1,367	99,032	194,398	50.9
1981	95,399	1,564	137,632	231,003	59.6
1980	97,516	1,694	120,746	216,207	55.8
1979	78,130	1,223	111,390	193,381	57.6
1978	79,278	644	172,700	253,683	68.1
1977	90,417	800	106,000	196,587	53.9
1976	115,354	700	115,400	234,471	49.2
1975	131,155	600	74,100	206,376	35.9
1974	146,500	1,010	67,352	210,838	31.9
1973	143,077	29	66,291	214,837	30.9
1972	159,399	105	58,020	217,314	26.7
1971	156,489	112	62,872	219,249	28.7
1970	144,276	129	49,726	193,873	25.6
1969	142,295	195	44,463	186,563	23.8
1968	152,257	239	49,200	201,218	24.5
1967	153,656	211	44,659	198,104	22.5
1966	157,491	167	35,060	192,384	18.2
1965	165,741	195	33,363	198,909	16.8
1964	162,151	225	29,063	190,989	15.2

APPENDIX V

RUBBER & PLASTIC PROTECTIVE FOOTWEAR (SIC 30210 20)
(Figures in Thousands of Pairs)

	Production	Exports	Imports	Consumption	%Imports
1989	13,700	700	8,200	21,200	39.0
1988	13,800	700	8,900	22,000	40.0
1987	11,100	800	9,600	19,900	48.0
1986	12,200	500	10,700	22,400	48.0
1985	16,500	400	12,800	28,900	44.0
1984	17,734	296	16,010	32,830	48.8
1983	15,459	305	13,373	26,562	50.3
1982	13,920	386	11,103	24,611	45.1
1981	10,652	551	7,485	18,028	41.5
1980	14,473	653	7,548	21,552	35.0
1979	23,531	645	12,544	36,517	34.4
1978	28,893	514	13,444	36,130	37.2
1977	23,380	400	10,700	34,402	31.1
1976	17,261	400	9,600	26,800	35.8
1975	16,135	300	4,100	20,600	19.9

Official Government figures on rubber and plastic protective footwear were not compiled for years earlier than 1975.

Source: Compiled from official statistics of the U.S. Department of Commerce

APPENDIX VI

PRODUCTION EMPLOYMENT
(in thousands)

RUBBER AND PLASTIC FOOTWEAR

1973	26.3
1974	25.3
1975	— 22.3
1976	21.6
1977	20.9
1978	21.0
1979	19.9
1980	19.8
1981	19.0
1982	16.2
1983	14.1
1984	14.0
1985	10.9
1986	9.2
1987	9.4
1988	9.7
1989	9.0

	1988	1989	1990
January	9.8	9.0	8.8
February	10.1	9.1	8.9
March	10.2	9.1	9.0
April	10.1	9.0	8.9
May	10.2	8.9	8.9
June	9.9	9.0	8.9
July	9.0	8.7	8.4
August	9.5	8.2	8.9
September	9.3	9.3	8.9
October	9.3	9.4	8.9
November	9.3	9.2	8.7*
December	9.2	8.9	

(*: preliminary figure)

Source: Bureau of Labor Statistics, U.S. Department of Labor

Chairman GIBBONS. Mr. Libman.

STATEMENT OF WILLIAM LIBMAN, TREASURER, THE LIBMAN CO., ARCOLA, IL, ON BEHALF OF BROOM MANUFACTURERS OF THE UNITED STATES, ACCOMPANIED BY HARRY LEVENTHAL, VINING INDUSTRIES, SPRINGFIELD, OH; AND RAY LEBLANC, NATIONAL BROOMCORN CO., LAREDO, TX

Mr. LIBMAN. My name is William Libman, and I am the third generation of the Libman Co., which was founded in Chicago in 1896. We are a member as the broom industry in the United States, and I am speaking of a member of the broom and mop division of the American Brush Manufacturers Association of the United States. Our industry is extremely import sensitive because the cost of production indicates that approximately 30 percent of our direct cost would comprise labor, 70 percent would comprise our material, and this does not include overhead and profit.

The broom industry is comprised of approximately 135 family-owned businesses scattered from coast to coast, north to south, east to west. The industry's roots go back to the very foundations of the United States. The actual broomcorn crop, which is a type of sorghum, was introduced into the United States by Benjamin Franklin. He brought the seed back from France when he was the Ambassador in the 1780's. The broomcorn fiber crop was raised in the United States for over 150 years. Today its use is that of a seed crop. It is not grown in the United States for the brush fiber. The brush fiber actually comes from Mexico.

The manufacturers that produce brooms in the United States, as I indicated, are small family businesses. There are a number of broom manufacturers who have diversified into other related cleaning products, such as the Libman Co., which does produce a complete line of sponge mops, sponge refills, all types of brooms, brushes, and miscellaneous cleaning products.

We frankly cannot add anything to the discussion as far as what was said on the conditions in Mexico. I was here yesterday afternoon. I have been to Mexico only once, to Tiajuana. I have a vivid recollection of walking down a street and watching a wonderful peasant woman with three children that were under 4 years old, all of them, and she was weaving some handicraft at 10 o'clock at night. I was shocked to see these children having to live on the sidewalk, but that is basically my experience in Mexico. I remember it like it was yesterday.

Now, the testimony yesterday afternoon, not only was it shocking, but I have two children ages 11—a boy—and a girl who is 9. Listening to the various Congressmen and Congresswoman talk about the lack of enforceable child labor laws in Mexico, there must be some degree of validity to this. I do not think they would get up and testify that you find 12-year-old girls working in these plants along the border were it not true. I find it shocking. Our industry cannot compete with this. I will be very frank and candid. I do not think that many American industries can compete with labor of this magnitude.

The pay scale—there is no reason for me to repeat the different wage levels. If it is 50 cents an hour, 30 cents an hour, or $1.71 an

hour, what difference does it make? There are very few American industries that can compete with what I—I hate to use the word because I was not going to use it; but it is literally a slave labor society. There should not be any ifs, ands, or buts. American manufacturers, and our industry in particular, are faced with a slave labor society along our southwestern border.

Our industry's wage scales for normal factory work range from $5.50 to $7.50 an hour, and for a skilled broommaker who takes many years to learn the trade, the wage scale would run between $7 and well over $10 an hour. Contrasting this with Mexican wage levels of 13 percent to 15 percent of what we pay in the United States, or 10 percent, it is literally a moot point to debate whether or not the Mexican scale is 18 percent, 13 percent. It really does not make any difference. The fact is the difference is so huge.

Not only do these low wage scales translate into the direct labor to produce our product, which is a broom, but it could be the footwear industry, it could be the textile industry. Actually I am speaking not just for the broom manufacturers, but what I say applies to all these other American industries.

We live in central Illinois. There is very little industry moving into down-State Illinois. Approximately 10 years ago Zenith—one of the Congressmen yesterday mentioned Zenith, the factory in Indiana—well, this factory was in Paris, IL. They moved this factory to Mexico 10 years ago. And I heard this from a woman in my office last week when I asked her if she had any information on this. She said that Zenith, when they moved the plant, that they were going to pay the minimum wage that existed in the United States to the workers in Mexico wherever the plant was located, and they were told that they could not do this. They had to pay whatever the going wage scale was in Mexico.

But in Paris, IL, which is just 30 miles east of Arcola, where our factory is, the community has been totally devastated. They have one of the highest unemployment rates in the State of Illinois. It runs historically 10 to 13 percent.

I frankly feel sorry for the American worker. I think that we are going to put a rope literally around the neck of the average working person in this country. They will never recover from it. It is my opinion that the issue of free trade with Mexico is one of the most important economic issues that is going to face this country in the 1990's. I cannot remember the last time we as a nation have had a balance of payment surplus. It is absolutely incredible. Every month—I do not know which day each month the statistics come out, detailing the balance of trade deficit of the United States, I would guess you would have to go back to the 1970's to find a year when we actually ran a surplus.

Now, I do not think that this free trade agreement with Mexico is going to benefit the balance of payments problem in this country. We have to produce product domestically. If we strip our Nation bare of basic industry—frankly, the broom industry, it goes back hundreds of years. It is as basic as you can get. It is like the needle and thread. If the Congress of the United States eliminates the broom industry, we can list hundreds of other industries that are also going to be completely shut down. What is the average

American working person going to do? Where are they going to get a job? Where will the future factories be located?

Our industry historically has employed the handicapped, and blind. There have been many blind shops in the United States that have made cornbrooms over the years. Not only has our industry been a repository of the sightless for a good job, but we have also been a repository for high school dropouts. Our industry employs primarily the unskilled: basic assembly work, packaging. In the highly skilled broommaking, the winding, the stitching, which is the sewing, workers become highly skilled through long work training on the job. I must add that once those broommaking jobs are lost, this work skill which is acquired over many years of artisan craft is not transferrable to any other industry. If our industry's skilled people lose these jobs they have had winding brooms or stitching brooms, these skills cannot be transferred to another industry. It is like they have taken their whole lives and thrown them down the tubes.

These are good jobs. These people are making $17,000, $20,000 a year. I think it is a tragic condition that we are faced with. I am at a loss for words. Where are the high school dropouts going to go to work? We have several hundred people working for us.

Carla Hills, I believe, said yesterday that there would be massive Federal moneys allocated to job retraining in the United States. Well, I would like to tell Carla Hills—or whoever said it, that for industry in the United States to utilize the job training funds to retrain the people industry must remain in the United States. If industry has left the United States, what good is the job training money? And that is something that the Congress has to have full understanding of. If we continue to lose our industry, no amount of money in the world is going to get it back. Once it is gone, it will be gone forever. It is a real dilemma.

I am speaking for an industry that is very labor intensive. I will lay down the cards. We cannot compete. The Mexican broom manufacturers undercut us approximately one-third in selling price. As you know, there is a quota on broomcorn brooms. It is presently approximately 121,000 dozen a year. They, Mexico, do share the American market. Once the quota is filled, there is an ad valorem duty of 32 percent, which does compensate for the difference in the cost level of production. Without the duty, the industry could not survive. But there has been an ongoing sharing of production and consumption with Mexico.

I am not trying to put down the Mexican people. I do not think anybody wants to hurt the Mexican people. I like the Mexican people. I would like to help Mexico improve their situation economically, and I am sure everybody else here would like to do the same thing, but there has to be some common ground estalished where we can come to some agreement that it is not going to put—not only our industry, but a lot of other manufacturers out of business with the resulting loss of thousands of American jobs. There has to be some common ground that we can reach an agreement, so that everyone can be satisfied.

Thank you very much.

[The prepared statement and attachments follow:]

TESTIMONY OF WILLIAM LIBMAN
THE BROOM MANUFACTURERS OF AMERICA

The United States Broom Industry has been an integral part of our culture since the introduction of broomcorn by Benjamin Franklin, during his tenure as Ambassador to France. The Quakers refined the loosely bound "witches style" broom by sewing the broom flat, thus creating the familiar American broom.

At one time domestically produced broomcorn was an important agricultural commodity. Cultivation of broomcorn fiber, a form of sorghum, moved from New England to Southern Ohio and Illinois; then to the southwestern states of Oklahoma, New Mexico and Colorado. Since it requires little water, this crop is well suited to more arid lands. Today, however, its United States role is largely limited to seed production with very little emphasis placed on actual fiber production. This is due to the amount of hand labor required for harvesting. Mexico recognized an opportunity to both cultivate and process broomcorn. Today, the bulk of America's broomcorn is produced in the country of Mexico.

Twenty Five years ago, Congress investigated how the Mexican producers had monopolized the broomcorn crop industry and how they were rapidly moving into finished brooms. This move threatened a U.S. industry of small entrepreneurial firms (which included a number of shops employing workers with visual and other impairments).

During the Kennedy administration, legislation proposing a duty on brooms made from vegetable fiber (PL89-241) was introduced. In 1965, supported by Congressmen Mills, Collier, Morris and Thompson, quotas were introduced providing a nominal duty of 20% on approximately 205,000 dozen upright and whisk brooms. After the 205,000 dozen quota is reached, the duty increases to 32%. Senators Dirksen, Byrd, Curtiss and Long also sponsored or supported similar legislation in the Senate. This quota has subsequently been adjusted downward to 140,000 dozen to reflect reduced domestic broomcorn broom consumption.

Recently, this tariff was put to test when an oversight was made in the tariff language during the harmonization process. This error allowed a broom with a mix of fibers to be classified as non-dutiable. Congress recognized this error and responded legislativelly with HR1594 which restored the old language. This bill was passed on August 20,1990 and became PL101382, Sec. 1107 with an effective date of September 4, 1990. Congress appeared unwilling to see an industry destroyed over inadvertent language.

The United States Broom Industry has traditionally been an employer of people with certain impairments as well as those with marginal education - that is, people who have some secondary education, up to high school graduates. Employment opportunities for these people are few, especially in rural

areas. Our industry provides otherwise unemployable people with fair wages and meaningful work. We offer them an opportunity to improve their lives immeasurably through training, an earned income, a sense of purpose and basic work ethics.

The manufacturing of broomcorn brooms is a labor intensive process requiring skilled craftsmen in both winding and stitching of the product. Broom makers' skills, learned over many years of arduous work, are not transferrable. Unlike some industries, manufacturing broomcorn brooms can never be a fully automated process.

Mexico is a country where regulations regarding wages, worker's compensation, social security and unemployment; as well as those regarding safety, health and the environment are more relaxed than those in the United States. Those companies whose manufacturing plants are based there are at a distinct advantage over those companies whose manufacturing facilities are located within the United States. This has been a major factor in the decline of the American Broom Industry for well over 25 years.

Free trade must be tempered with Fair Trade, carefully negotiated and closely scrutinized by members of both trading partners including the Congress of the United States. Were we to enter into an agreement that places foreign manufacturers at a distinct advantage in the form of lower labor costs and more relaxed governmental regulations, legitimate, viable businesses would soon lose their ability to compete and the result would be less diversity in the marketplace.

We firmly believe in free trade when it is coupled strongly with fairness. In fact, we are able to compete successfully with major European manufacturers.

It is from countries where the wage and other costs differential is so vast, and the governmental regulations are so ambiguous that we require some form of recognition. Our research indicates that the general factory floor labor cost in Mexico is $40.00 per week or approximately $1.00 per labor hour as compared to an estimated United States industry average of between $5.50 to $7.50 per labor hour for the same level of skill. This makes U.S. labor between 550% to 750% more expensive than the same category in Mexico. No amount of investment in equipment or training could ever possibly overcome such a huge differential in wage scales. Skilled broom maker hourly labor rates in the U.S. range from a low of $7.00 per hour to more than $10.00 per hour as compared to an estimated range in Mexico of between $1.00 per hour and $1.34 per hour for similar skilled work.

This huge labor cost differential which the Mexican cornbroom producers enjoy over similar United States manufacturers translates into a major advantage for selling prices of

comparable products. It is believed that for a 22 pound per dozen 100% broomcorn broom, an industry standard, in size and weight, the Mexican producers enjoy a cost advantage of approximately 33%, or one third over that of similar U.S. manufacturers. For example, for a 22 pound per dozen 100% cornbroom, the United States cornbroom manufacturers F.O.B. origin selling price would range between $38.50 to $42.50 per dozen, as compared to a Mexican producer's selling price of approximately $26.00 per dozen as seen in the price sheet from Industrias Trelesa, item number 1100. This translates into at least an approximate 32.6% cost differential advantage in favor of the Mexican cornbroom producers. The current U.S. duty for brooms made wholly or partly of broomcorn, once the quota of 140,000 dozen is reached, is 32%, an amount designed to compensate for the approximate one third selling price advantage Mexico enjoys, in effect putting both countries on an equal level playing field in the production and distribution of broomcorn brooms in the United States.

As can be seen from the attached list of American Broom Manufacturers there appears to be at least 120 distinct manufacturers who would be adversely affected by the proposed Free Trade Agreement with Mexico. It is projected that, of these 120 manufacturers, less than a hand full would remain in domestic production with the resulting loss of thousands and thousands of well paying, secure, American jobs. The broom industry as a whole, consisting of both employers and employees have provided substantial revenues to all levels of government.

Broom factories are currently located in a wide, diverse geographical pattern throughout the continental United States. A few of the localities where a total elimination of these thousands of jobs would occur are as follows:

Portland, IN	Springfield, OH,	Paxton, IL
Arcola, IL	Greenup, IL	Little Rock, AR
Memphis, TN	Autaugaville, AL	Keene, TX
Cornelia, GA	Tampa, FL	Houston, TX
Goodlettsville, TN	Greenwood, SC	Hamburg, PA
Fort Smith, AR	Pittsburg, PA	Pineville, LA
Jackson, MS	New Orleans, LA	Sedalia, MO
Talladega, AL	Los Angeles, CA	Chula Vista, CA
Commerce, CA	Spangle, WA	Portland, OR
Lancaster, MA		

These localities, both large and small, represent the mainstream of the United States population.

The most current employment data for direct employees in the broom and brush industry, Federal number 3991, indicates that the total employment, as of 1987, was approximately 12,300. Lacking subsidiary statistics we are estimating that the broom and related industries portion of this total would approximate 50% of the above indicated level or 6,150 full time domestic jobs. Table 1a-1 does not include employees of supplier

industries and services for which the broom industry is the direct beneficiary. For example: there are significant collateral employees gainfully employed in the United States who produce the following products and services used in the broom industry:

corrugated cartons
steel tubing
wire
nails,
freight - both inbound and outbound
petrochemical
paint
wooden handles
yarn - both cotton and synthetic
steel fabrication
sponges - synthetic and natural
packaging - plastic and cardboard sleeves
advertising
legal
accounting
information services

These represent a small handful of the goods and services that are directly influenced by the broom and cleaning aids industry.

It is the Industry's position that a Free Trade Agreement with Mexico would eliminate for all intents and purposes the entire production of cornbrooms in the United States. To reiterate, a broom maker's skills, learned over a lifetime of work, will be lost forever. Not only will these direct cornbroom production jobs migrate to Mexico, but substantial levels of other cleaning product employment opportunities would also shift, in coming years, south of the border.

There are a number of reasons why the Congress of the United States should reevaluate the use of Fast Track Authority when negotiating a Free Trade Agreement with Mexico:

Primarily, our economies are vastly different. The per capita income for a citizen of the United States is $16,444; while the income for a citizen of Mexico is $2,084. It is one thing to say that a free trade agreement will open a vast new market for American made goods; but given the low income of the average Mexican citizen, it is questionable as to whether or not he can afford the price.

According to some, there were similar concerns about the entrance of Spain into the European Common Market. Our research shows that the per capita income for the country of Spain is $4,490. This amount is more than twice the per capita income of Mexico ($2,084). The per capita income for Germany, a highly industrialized country, is $10,680; or $5,764 less than the per capita of the United States ($16,444). It would

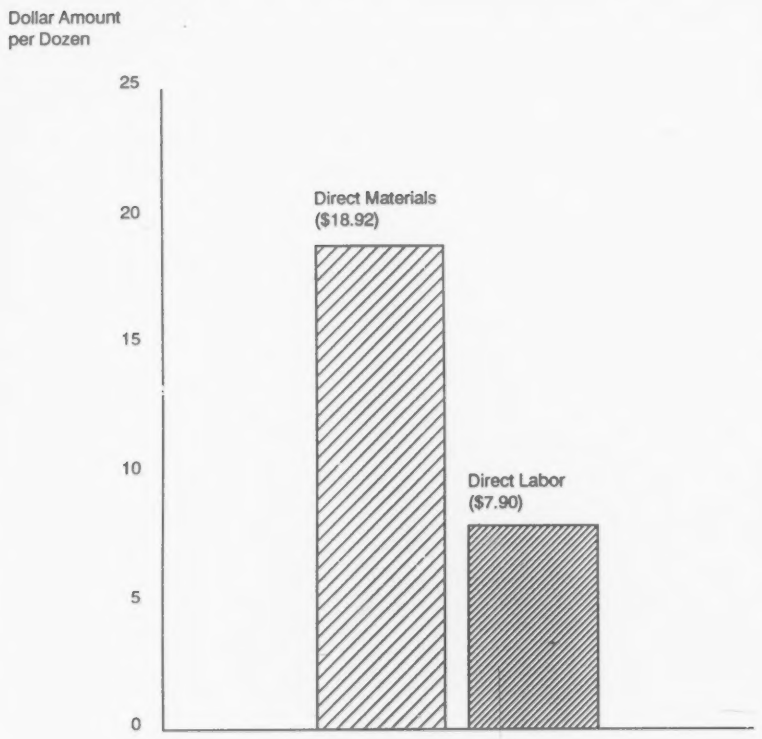
be prudent to suggest that Germany and Spain were on a more equal footing, economically, than the United States and Mexico.

Secondly, our forms of government are based on different philosophies. The legal ramifications surrounding ownership, labor relations, etc. from a local, state, national and international standpoint must be carefully considered. According to Leslie Glick, a noted attorney and expert in the field of international trade law, the FTA negotiations between the United States and Canada; two countries with similar governmental structures and philosophies; were difficult. The difference in philosophies between the governments of the United States and Mexico should indicate that even more care should be taken with the negotiations of this Free Trade Agreement, not less.

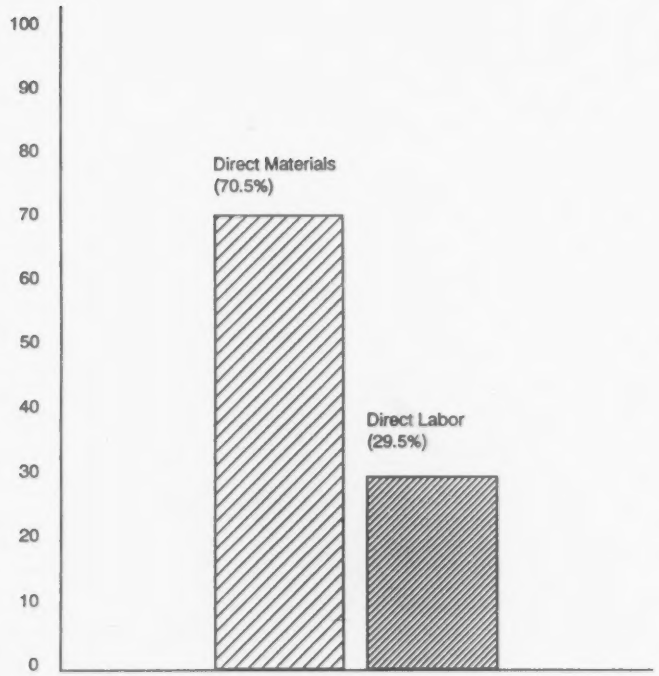
Thirdly, it has come to our attention that the country of Canada has requested to be included in the negotiations of this Free Trade Agreement. Now that three countries are involved, it is vital to take the time to fairly and properly negotiate any agreement and to consider the consequences to those trade agreements already in place.

In both President Bush's State of the Union Address and the Senate Majority Leader's Rebuttal, it was emphasized that American Industry was vital to our national strength. We must nurture this great resource - our ability to produce basic needs domestically - with great vigor. We encourage the Congress of the United States to reevaluate the use of Fast Track Authority while negotiating a Free Trade Agreement with Mexico. There are far too many issues and basic philosophies that must be addressed before any trade agreement should be considered. We urge Congress to take the time necessary to negotiate a trade agreement that is fundamentally based on equity and fairness.

TOTAL U.S. DIRECT MATERIALS AND DIRECT LABOR COSTS TO PRODUCE 1 DOZEN 100% CORNBROOMS (in U.S. Dollars)



TOTAL U.S. DIRECT MATERIALS AND DIRECT LABOR COSTS TO PRODUCE 1 DOZEN 100% CORNBROOMS (In Percentages)



Census Final: Broom & Brush Industries

by R. Bruce Gebhardt

The September/October 1989 and the November/December 1989 issues of *Brushware® Magazine* presented preliminary Census Bureau data on the recent history of the broom and brush industry and its individual product lines. There were some frustrating gaps in the data. Now a final report has filled in many blanks, but not all. It is three years late and sketchy.

Because it was too long for one issue, it was necessary to publish the story in two issues. Unfortunately, we will have to break up this version too. (Although *Brushware®* articles will be a comprehensive summary on our industry, by all means, order the actual Census document. Ordering information appears at the end of each of these *Brushware®* articles.)

This article converts the Census Bureau's tabular historical data into prose, but I have also included calculations that Census does not provide. Subsequent articles will digest state-by-state information, ratios, a 1987 cross-section and 1982-1987 comparisons by product line.

I. Historical Data

A. Number of Companies

Unsurprisingly, the number of companies making brooms and brushes declined steadily from 1972 to 1987. Data are only provided for 1972, 1977, 1982 and 1987. In 1972, there were 430 companies; in 1977, 391; in 1982, 320; in 1987, 293. This was a 32 percent decline in over fifteen years. Between 1982 and 1987, the decline was 8 percent. This decline has probably continued since then.

B. Number of "Establishments"

Besides companies, the Bureau tracks "establishments"—i.e., physical locations of production. These have likewise declined, from 450 in 1972 to 409 in 1977 to 341 in 1982 to 301 in 1987. The 1972-1987 decline was 33 percent; the 1982-1987 decline, 12 percent. The ratio of establishments to companies was 1.05 in 1972, and 1.03 in 1987. Obviously most companies are one-establishment operations, which is no news. The stability of the ratio is interesting.

Establishment figures are given for all establishments and for establishments with 20 or more workers. Larger shops have declined from 1972, but there was an increase from 1982 to 1987. In 1972, there were 166 shops with 20 or more workers; in 1977, 153; in 1982, 139; in 1987, back up to 143. I suspect a decrease since then, but there'll be no way to tell before 1992 figures come out—in 1995!

In 1972, there were 284 shops with less than 20 workers; in 1977, 256; and 1982, 202; in 1987, 158. Smaller shops thus steadily and steeply declined at the same time larger ones were increasing. Percentages of establishments with more than 20 workers were as follows: in 1972 and 1977, 37 percent; in 1982, 41; in 1987, 48 percent. There are fewer establishments, and the ones remaining have larger workforces.

C. Employment

Whereas the above data were given for each fifth year ("quinquennially"), employment data were given for each year from 1972 to 1987. Overall employment data generally paralleled workplace trends, but from year to year, there was an occasional increase. Over the 15-year period to 1987, employment fell from 17,500 to 12,300, or 30 percent—slightly less steep than decline in number of companies and establishments (32 and 33 percent). In 1982, the figure was 14,100; thus, the 1982-1987 decline was 1,800, or 13 percent (as compared to the decline in companies of 8 percent). One can read a number of things in the figures—notably a collapse in high employment and perhaps less efficient shops.

Payroll figures rose, mainly due to inflation (although the ratio of production to white-collar employees, covered below, offers further insight). In 1972, payroll had been $118.5 million; in 1982, it was $230.6, an increase of 95 percent.

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Employee data are further subdivided; there are figures on production and nonproduction workers. In 1972, there were 14,200 production workers; in 1977, 12,700; in 1982, 10,500; in 1987, 9,300. This is a decline of 4,900 production jobs in 15 years, or 35 percent. As with overall employment, production jobs bottomed out in 1985 and then rose in 1987. There had been previous up-blips in 1973 and 1977.

In 1972, there were 3,300 nonproduction workers; in 1987, 3,000, a decline of 9 percent. In 1972, nonproduction workers were 19 percent of the workforce; in 1987, 24 percent.

Naturally the hours put in by production workers as a whole fell over the years. In 1972, they worked 26.8 million hours; in 1987, 17.5 million, a decline of 9.3 million hours, or 35 percent—the same percentage as the decline of production jobs.

Production wages grew with overall compensation—from $79.5 million in 1972 to $137.1 million in 1987, or 72 percent. Remember that the overall payroll went up 95 percent; thus, compensation for nonproduction workers soared by comparison. In 1972, nonproduction payrolls totaled $39 million; in 1987, $93.5. This was an increase of 140 percent.

D. Money.

Value added by manufacture increased from $235.5 million in 1972 to $550.9 million in 1987, or 134 percent. In 1982, value added was $432.5 million, which meant a 1982-1987 increase of 27 percent. Especially noticeable was the jump from $479.3 million in 1986 to $550.9 million in 1987; this was a one year increase of 15 percent. Payrolls and to a lesser extent, production workers' wages, also increased significantly in 1987. There were other fluctuations along the way in value-added, as well as in other categories. (In these articles, we have assumed a 175 percent inflation since 1972 and a 15 percent inflation since 1982.) For the whole period, therefore, the industry declined in significance in relationship to the total economy, but it revived between 1982 and 1987.

On their way to an overall up, the value of shipments also went up and down over the years. As in the cases of wages and value-added, to assess industry performance accurately, this data should be adjusted for inflation—still, the overall trends are evident without doing so. Shipments were worth $438.3 million in 1972; the 1987 figure was $990.4 million. The 1982 figure was $894 million, so there was a 5-year gain of 11 percent, unadjusted. As in some other categories mentioned, there was a notable 1986-1987 gain, from $859.3 million to $990.4 million, or 15 percent in one year.

The cost of material slightly more than doubled, going from $204.9 million in 1972 to $440.7 million in 1987. The 1983 cost was $421.1 million, a figure unsurpassed till 1987. The value of shipments also peaked in 1983 and did not top that point until 1987.

In its compilation of new capital expenditures, Census warns of a possible 15 percent error. Over the 15-year period, the amount of new capital expenditures doubled, from $13 million in 1972 to $26.5 million in 1987 (these figures are unadjusted for inflation), but there were extreme fluctuations along the way. The high was $28.9 million in 1980. The low, $12.9 million, occurred in 1976. In the last three years of the survey, it reached a plateau of $26.1 million, $27.6 million and $26.5 million.

On their way to near doubling, end-of-year inventories likewise fluctuated, though not so much. In 1972, they amounted to $98.5 million; in 1987, the figure was $180.9 million.

Future articles will cover a variety of operating ratios presented by Census; also, data by states, data for 1987, and an analysis of the broom and brush industry by product line.

References

1987 Census of Manufactures, Industry Series, "Miscellaneous Manufactures," Industries 3991, 3993, 3995, 3996 and 3999, Series # MC87-I-39D, Stock Order # 803-018-00083-9. [Send check for $2.75 to Superintendent of Documents, Government Printing Office, Washington, DC 20402-9325. To place order with major credit card or GPO account numoer, call 202-783-3238 between 7:30 A.M. and 4 P.M. E.S.T., or FAX 202-275-0019.]

NOTE: the broom and brush industry is #3991.

NOTE ON ADJUSTING FOR INFLATION. Several inflation indexes available show the 1987 dollar worth only about 36 percent of the 1972 dollar and 87 percent of the 1982. (Adjustment is minimized in this article because of space and because its main purpose is to show changes in the magnitude of the data. However, interested readers can work backwards from the figures given here.)

Table 1a-1. Historical Statistics for the Industry (1987 Basis): 1987 and Earlier Years

[Industries with only 1987 data are revised for 1987. Table 1a-2 contains historical data on the old SIC basis. See table 1c-1 for composition of the new industry on the old SIC basis. Excludes data for auxiliaries. For meaning of abbreviations and symbols, see introductory text. For explanation of terms, see appendixes]

Year[1]	All establishments[2]		All employees		Production workers			Value added by manufacture[4] (million dollars)	Cost of materials[5] (million dollars)	Value of shipments (million dollars)	New capital expenditures[6] (million dollars)	End-of-year inventories[4] (million dollars)	Ratios	
	Companies[3] (no.)	Total (no.)	With 20 employees or more (no.)	Number (1,000)	Payroll (million dollars)	Number (1,000)	Hours (millions)	Wages (million dollars)					Specialization[7] (percent)	Coverage[8] (percent)
	INDUSTRY 3991, BROOMS AND BRUSHES													
1987 Census	293	301	143	12.3	230.6	9.3	17.5	137.1	550.9	440.7	990.4	26.5	180.9	88	91
1986 ASM	(NA)	(NA)	(NA)	11.4	202.3	8.7	16.9	118.9	479.3	386.2	859.3	*27.6	166.8	(NA)	(NA)
1985 ASM	(NA)	(NA)	(NA)	11.4	190.3	8.6	16.3	111.9	438.9	368.7	806.0	*26.1	154.4	(NA)	(NA)
1984 ASM	(NA)	(NA)	(NA)	13.2	202.6	9.9	18.0	121.4	482.4	402.9	878.2	17.7	172.7	(NA)	(NA)
1983 ASM	(NA)	(NA)	(NA)	13.4	205.1	9.9	17.6	124.1	470.9	421.1	894.0	*18.7	159.2	(NA)	(NA)
1982 Census	320	341	139	14.1	197.1	10.5	19.4	123.0	432.5	376.9	816.1	17.2	155.1	90	89
1981 ASM	(NA)	(NA)	(NA)	15.0	195.1	11.4	21.4	122.1	431.1	363.7	788.3	21.1	156.1	(NA)	(NA)
1980 ASM	(NA)	(NA)	(NA)	15.8	189.7	12.1	23.2	118.5	406.4	357.2	762.4	28.9	149.8	(NA)	(NA)
1979 ASM	(NA)	(NA)	(NA)	16.6	179.4	12.5	24.3	113.1	397.7	353.1	742.3	22.2	147.6	(NA)	(NA)
1978 ASM	(NA)	(NA)	(NA)	16.8	174.2	12.9	24.2	109.4	376.2	339.8	716.9	13.5	138.4	(NA)	(NA)
1977 Census	391	409	153	16.5	163.8	12.7	24.0	101.1	353.6	326.7	673.1	15.7	129.9	91	88
1976 ASM	(NA)	(NA)	(NA)	15.6	138.9	11.8	21.8	86.8	303.1	257.0	563.6	12.9	110.1	(NA)	(NA)
1975 ASM	(NA)	(NA)	(NA)	14.7	122.3	11.2	21.4	77.5	273.3	227.3	500.0	20.1	116.8	(NA)	(NA)
1974 ASM	(NA)	(NA)	(NA)	16.9	129.9	13.1	24.0	84.7	278.1	253.2	521.2	12.9	130.0	(NA)	(NA)
1973 ASM	(NA)	(NA)	(NA)	18.1	127.2	14.7	27.7	85.2	276.9	227.3	488.9	19.0	115.6	(NA)	(NA)
1972 Census	430	450	166	17.5	118.5	14.2	26.8	79.5	235.5	204.9	438.3	13.0	98.5	92	94

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PRICE LIST EFFECTIVE MAY 1st., 1989
PRICE LIST OF BROOMS FOR EXPORTATION, QUOTED IN U.S. DOLLARS
FOR MERCHANDISE F.O.B. CADEREYTA, N.L. MEXICO

	BROOMS 100% BROOMCORN	Price of package of: 12 pieces	10 pieces
No. 1030	Broom of 3 kilos, with 2 threads	$ 11.65	9.70
No. 1030E	Broom of 3 kilos, with 3 threads	12.15	10.15
No. 1070	Broom of 7 kilos, with 4 threads	20.80	17.35
No. 1070E	Broom of 7 kilos, with 4 threads	21.30	17.75
No. 1080	Broom of 8 kilos, with 4 threads	22.10	18.40
No. 1090	Broom of 9 kilos, with 5 threads	24.70	20.60
No. 1100	Broom of 10 kilos, with 5 threads	26.80	22.35
No. 1110	Broom of 11 kilos, with 6 threads	28.70	23.95
No. 1120	Broom of 12 kilos, with 6 threads	30.85	25.75
No. 1510	Broom of 10 kilos, with 1 wire and 3 threads	27.35	22.80
No. 1512	Broom of 12 kilos, with 1 wire and 3 threads	30.25	25.20
No. 1514	Broom of 14 kilos, with 1 wire and 3 threads	35.40	29.50
	MIXED BROOMS BROOMCORN AND RATTAN:		
No. 1070	Broom of 7 kilos, with 4 threads	16.45	13.70
No. 1075	Broom of 7.5 kilos, with 4 threads	16.95	14.15
No. 1080	Broom of 8 kilos, with 4 threads	17.50	14.60
No. 1085	Broom of 8.5 kilos, with 4 threads	18.05	15.05
No. 1090	Broom of 9 kilos, with 5 threads	19.10	15.95
No. 1095	Broom of 9.5 kilos, with 5 threads	19.60	16.40
No. 1100	Broom of 10 kilos, with 5 threads	20.15	16.85
No. 1110	Broom of 11 kilos, with 6 threads	21.75	18.15
No. 1120	Broom of 12 kilos, with 6 threads	22.80	19.05
No. 1130	Broom of 13 kilos, with 7 threads	24.40	20.35
No. 1510	Broom of 10 kilos, with 1 wire and 3 threads	19.55	16.30
No. 1511	Broom of 11 kilos, with 1 wire and 3 threads	21.80	18.20
No. 1512	Broom of 12 kilos, with 1 wire and 3 threads	24.00	20.00
No. 1513	Broom of 13 kilos, with 1 wire and 3 threads	26.25	21.85
No. 1514	Broom of 14 kilos, with 1 wire and 3 threads	28.50	23.75
No. 1515	Broom of 15 kilos, with 1 wire and 3 threads	30.70	25.60
No. 1516	Broom of 16 kilos, with 1 wire and 4 threads	33.45	27.85
	*NAILED BROOMS OF BROOM CORN AND CAP OF PLASTIC:		
No. 2060	Broom of 6 kilos, with 1 thread	21.20	17.70
No. 2075	Broom of 7.5 kilos, with 4 threads	26.45	22.05
No. 2090	Broom of 9 kilos, with 5 threads	29.00	24.15
	*NAILED BROOMS OF FIBER AND CAP OF PLASTIC:		
No. 3060	Broom of 6 kilos, with 1 thread, cut in angle	18.05	15.00
No. 3060	Broom of 6 kilos, with 1 thread	18.05	15.00
No. 3070	Broom of 7 kilos, with 3 threads	21.05	17.55
No. 3090	Broom of 9 kilos, with 4 threads, cut in angle	25.30	21.05
No. 3090	Broom of 9 kilos, with 5 threads	25.95	21.65

If you wish an extra thread, you will have an increase of $ 0.55 per dozen or $ 0.50 per package of 10.

If you wish the brooms with velvet ball, you will have an increase of $ 0.55 per dozen or $ 0.50 per package of 10.

Brooms no nailed are finished with run-down wire, exception No.1510,1511,1512,1513, -- 1514,1515 and 1516.

Brooms handles are finished with 1 coat of sealer and 2 coat of paint.

If you wish an extra coat of paint, you will have an increase of $ 0.50 per dozen or - $ 0.45 per package of 10.

All the brooms, are protected with a plastic sack

*All the nailed brooms are protectec with an individual polybag and packaged with -- cartons. For these concepts you will have an increase of $ 1.80 dollars.

INDUSTRIAS TRELE, S.A.

Chairman GIBBONS. Thank you, Mr. Libman.

Let me ask you something about organized labor in Mexico.

Mr. Gundersheim, do you want to make a statement? I do not see you on my list, but I see you there.

Mr. GUNDERSHEIM. I have been here a few times, yes, Mr. Chairman.

I am the director for international trade for the Clothing and Textile Workers Union.

Chairman GIBBONS. Good. Well, let me ask you a few things about organized labor in Mexico. Does the AFL-CIO in the United States have any working relationship with organized labor in Mexico?

Ms. SUAREZ. There has historically been, I think, certainly a formal relationship between the CTME and the AFL-CIO. The CTME is constructed very differently, Mr. Gibbons, than is our federation in this country, and for that matter, our trade unions in this country. It is very closely attached to the political party in power in Mexico. It is very intricately involved in prepolicy, and so it does not perform, from our perspective, in the same way in the field that trade unions in this country do.

I do not know if that answers the question.

Chairman GIBBONS. Well, I do not know much about it. I am going to come to you, Mr. Huenefeld, in just a minute. I am sorry I missed you over here.

Have you all ever tried to organize a union in Mexico?

Ms. SUAREZ. We would not be permitted under Mexican law to organize in Mexico. The issue that Professor Michie spoke to earlier in terms of the ease with which Mexican workers can organize, certainly what he spoke of in terms of law is accurate.

In practice, it is not. It would appear from our perspective that the Mexican bureaucracy has learned the same lesson that our National Labor Relations Board over the years has learned, and that is how to prolong petitions before the agencies in terms of worker recognition.

In addition to that, there has been—I think if you can check the record, and I do not have figures with me—there has been very little trade union organizing along the border for some 7 or 8 years now. It is our understanding that in fact at the requests of the ruling political party, CTME has not engaged in organizing of maquilas in large parts of the border for that period of time.

There is the beginnings of some independent trade unions springing up and organizing, that is, workers I think perhaps just simply out of the frustration of not being able to deal through the bureaucracy beginning to form independent unions in Mexico. But it is still very small, very fledgling. It is a relationship that is difficult to maintain.

There have been some strikes which have newsworthy enough to receive some note in the newspapers of unions that were not associated with the CTME. Those have not by and large been successful.

Chairman GIBBONS. I realize these are questions I probably should have addressed to Mr. Donahue, but they just did not occur to me at that time.

One of the things that intrigued me as I was sitting here listening to you is would the AFL-CIO welcome the opportunity, if there

is a free trade agreement, of being able to affiliate with local unions down there and work with them?

Ms. SUAREZ. Well, we have relationships through international federations. My union, for instance, is very active in the textile and apparel and other federations that operate throughout this continent actually, from Canada all the way to South America. We are very active in that, as our other unions and the leather federation.

It is out of those relationships, Mr. Gibbons, that I think we come with a perspective to this committee that our brothers and sisters who are actively attempting to do something in their respective countries, including Mexico, about improving living standards, view the free-trade agreement with alarm. They view it as in fact hindering their efforts to bring about a harmonization of wages and working conditions between this country and theirs.

It is not just in Mexico that we find this, but certainly on into Central America and South America, this is being expressed very strongly by our associations and, as I said, brothers and sisters in the unions in those countries.

Chairman GIBBONS. That is amazing to me. I would think it would be the other way around. I would think that the unions in Mexico would be interested in raising the standard of living of their own people, and they would look upon this as perhaps a mechanism by which there could be some wage increases.

Ms. SUAREZ. I think, again, the perspective is that if we deal simply with liberalizing trade, we have not dealt with the issues which give the opportunity to Mexico and, in matter of point, to other countries in Central and South America. We do not give them the opportunity without a social charter to have a firm base from which to work. And that has been expressed to us very clearly.

Chairman GIBBONS. I am sorry, Mr. Huenefeld, I almost overlooked you. I was concentrating so much on this panel.

STATEMENT OF FRED HUENEFELD, JR., MEMBER, EXECUTIVE COMMITTEE, NATIONAL ORGANIZATION FOR RAW MATERIALS, INC.

Mr. HUENEFELD. That is perfectly alright, Mr. Chairman.

I am Fred Huenefeld from Monroe, LA. I am an agriculturalist, a trustee in bankruptcy, and on the executive committee of the National Organization for Raw Materials.

Chairman GIBBONS. You ought to be pretty busy right now being the trustee of bankruptcy.

Mr. HUENEFELD. Well, I brought for your consumption, Mr. Chairman, a list of the bankruptcies I am handling. These are doctors, lawyers——

Chairman GIBBONS. That is a growing business.

Mr. HUENEFELD. This is the best business in town. Doctors, lawyers, bankers, farmers, drug stores, restaurants, officer suppliers, you name it sir, I am handling it.

Chairman GIBBONS. You have not got any labor union leaders, have you?

Mr. HUENEFELD. Well, I have got them right next door to me where I am working. We are good friends. In fact, UAW cooperated with me in my testimony with you today.

Chairman GIBBONS. Good.

Mr. HUENEFELD. I want to share with you a few basic points, sir. I have been involved in the evil of free trade for a long time. As an agriculturalist, I have a cotton plantation. Four years ago I shut my gin down because Brazil sold cheap soybean vegetable oil into the economy in the United States and collapsed my cottonseed market from $200 to $40 a ton. I would have lost $100,000 ginning my own cotton.

At that time I was on the board of the oil mill that we had, cottonseed oil mill. We lost $600,000 that year. We sold our mill last year.

Now, I share certain points with you from experience. I have been president of the National Organization of Raw Materials. I have had the opportunity to travel in Europe speaking on the American system of economies, which we have not functioned under since 1952. In 1952, Truman let the policy expire, in 1953 Eisenhower vetoed it, and since then, sir, we have seven recessions. Each recession only recovered by inflating the value of our assets and lowering the purchasing power of the dollar.

One dollar in 1952 bought the same amount of food in 1791, over 100 years. It dropped to 80 cents on the dollar in the thirties, and then went right back up. In 1942 to 1952 with the Banking Committee, which put into effect—it monetized the physical economy, which is the policy which should be into effect today. Article 1, subsection 5, section A of the Constitution, and it says: you regulate the value of money and you regulate the value of foreign money, and you fix the standards of weights and measures.

Every time we did that we had prosperity. I suggest for reference that you study a book called "The Harmony of Interest" by Henry Carey, who is in his outline showed when we monetized the physical economy in America we had prosperity. This is the book that was taught to the Japanese in 1861 by E. Pershine Smith.

In 1791, this book, called "The Report of the Manufacturers," was taught to the Germans through Frederick List, and Marquis Lafayette. The Germans, the Japanese, South Korea, and Taiwan are the only four nations in the world today that have a surplus trade balance. The reason is because they function under the American system of economics, which we do not.

Why am I handling so many bankruptcy cases? Why am I keeping people from suicide? Why am I keeping families from breaking up? I am trying to save America from the despondency that is occurring in other nations of the world.

I share with you one other point. I just handled a group of catfish farmers in bankruptcy. They went broke because Brazil sells catfish in the United States. I went down to the local store and bought Brazilian catfish for $1.29 a pound.

Now, in the same ice was catfish from Winsboro, LA, $1.99 a pound. Now, I ask you a question: which catfish are the poor folks going to buy? Who has got the money? Brazil.

Lincoln said if England builds the rails, they got the money and we got the rails. If we build the rails, we got the money and the rails.

I brought my rope with me today, sir, and I might could loan it to the gentleman on the end here. I can use it, and we can rope some of these wooden-headed economists that want to destroy the greatest republic in the world. We are not a democracy, we are a republic.

I am a Democrat, but I believe in a constitutional republic. I have served on the National Democratic Committee. I served on my State central democratic committee. I have been involved in this Nation's political affairs. But it is absolutely vociferous when I see these people coming up with the kind of policies that are trying to advocate to lower my standard of living to the standard of living of the third world.

In our research with the National Organization of Raw Materials, we know that if you increase the domestic consumption of the people of the United States 5 percent, you are talking about more money, sir, than the total exports of the United States of America, just increase the domestic consumption.

Now, you do that real simply, you monetize the physical economy. Let me say it another way: you get the true value based on the cost of production of what God gives you based on your standard of living. Article 1 of the Constitution of the United States. You do that by physically putting a minimum price on the raw material industry with a maximum price of 115 percent. This will keep inflation from occurring. This 90 percent base keeps depression from occurring. This regulates the value of money.

When Roosevelt did in 1942 to 1952, the farmer got 109 percent of parity, you had 100 percent of land in production, you had 109 percent income. You purchased what you produced, and you had enough money left over that the banks loaned out only 16.9 cents for every dollar on deposit. Today the banks in America are broke. They loaned out $1.25 for every dollar on deposit. Look on page 18A of your Federal Reserve Report, and it will show it to you.

Now, we owe $22 trillion of public and private debt. You can only turn this Nation around when you monetize the physical economy.

He was talking about incomes of people that work for him. Minimum salary today should be $50,000 a year. That is what a young man getting out of high school needs to pay the house note, the car note, the telephone bill, and the light bill, and mama stays home and takes care of the kids and teaches them beautiful music and art, and work with them and go to the school games with them.

But what happens today? Mama has got to work and daddy has got to work. If one of them loses a job, I get them in bankruptcy.

There is an answer. You can turn this Nation around. But it takes leaders that understand God's natural law that Moses laid out in Genesis first chapter, 28th verse. He said: "be fruitful, multiply, subdue the land, and I give you dominium over all." Paul said it in First Timothy: "Every labor is worth his hire." In Second Timothy, Paul said: "The first labor must be the producer."

If the farmer cannot buy the pickup, the manufacturer does not make it, the employee is laid off. He cannot buy the bread. The baker does not bake it and he does not buy the wheat from the

farmer. So the system collapses. That has what has happened since 1952.

I urge you, sir, I urge you, sir, that you stop the insane, ludicrous free trade policy being advocated by the vociferous bladderskites who do not care what is happening to this great republic, the United States of America.

[The prepared statement and attachments follow:]

STATEMENT OF FRED HUENEFELD, AGRICULTURIST, TRUSTEE IN BANKRUPTCY
NATIONAL ORGANIZATION FOR RAW MATERIALS EXECUTIVE COMMITTEE
before the
SUBCOMMITTEE ON TRADE
on
U.S.-MEXICO ECONOMIC RELATIONS
February 21, 1991

As a farmer, as an American, as a citizen concerned with the welfare of all nations, I call for a halt in the drive to set up a Free Trade zone between the United States and Mexico. I believe that such a pact would be deleterious to both our economies, and I am appalled by the glib way that those who are pushing hardest for this agreement, on both sides of the U.S.-Mexico border, are ignoring the consequences of the free trade provisions that have already been implemented piecemeal.

We are told under free trade, there will be more jobs created than lost, and investment funds will flow in. However, in less than two years, Canada has already lost more than 150,000 jobs, net, more than 1% of its work force, and has seen a net outflow of investment capital to the tune of Canadian $4 billion. It is reported that in the last 4 years, the lowering of tariffs is estimated to have already lost 77,000 jobs.

So-called free trade is in fact a doublespeak term for issuing a license-to-loot to a self-perceived elect group of swindlers, otherwise known as the mega-companies and banks that want to dominate all food, industry, and trade activities in President Bush's New World Order. These select private interests want the elimination of national barriers and boundaries to their practices of imposing usury and unfair, low prices.

Who are the members of this grouping? Some of the prominent names include ConAgra, Cargill, Louis Dreyfus, Archer Daniels Midland, Chase Manhattan Bank, Nestle, Citibank, and a few others.

It is an open secret that right from the start in 1986 of Agriculture Secretary Clayton Yeautter's drive for free trade in the Uruguay Round of the GATT talks that he was representing the interests of Cargill and cohort companies in coercing the 100 member nations of the GATT to agree to give up their sovereign right to set their own policies to protect and foster their industry, agriculture and living standards. So far, many nations have refused to agree to such economic subjugation through the Gatt process. This Administration is trying to set up a hemispheric free trade zone to loot their own back yard.

Others, especially the UAW and other unions here and in Mexico, have documented the obvious fact, that this would open the door to a mass exodus of runaway shops, and this has already happened to a significant extent. But more profoundly, it will open Mexico to become nothing but a huge labor pool for low-wage assembly plants. We have already heard arguments, from Senator Albert Gore among others, that in the wake of the war with Iraq we must apply what can only be called "technical apartheid" against the Third World. A free trade agreement would go far towards accomplishing this goal. It would tend to stall Mexican industry at a low level of technology, and reserve high technology industry for us.

I wish to note that those backing free trade ignore many points. To my knowledge, there is no example in modern world history of such an arrangement working between two countries whose levels of economic development are so disparate. The two most successful free trade schemes that I know of, the Customs Union among then sovereign German states in the 1830s, and the European Community, involved countries at least roughly comparable in their levels of economic development.

The Bush officials have repeatedly demanded that Mexico put the question of petroleum on the table as part of the free trade talks--most recently by former ambassador Charles Pilliod, last week in a conference in Acapulco with Carla Hills present. Just before President Bush pushed the button to start war in the Persian Gulf, he personally toured Mexico and South America to issue the edict: Your oil will be ours.

This is free trade in action. The freedom to loot and pillage.

The real reasons for the push for free trade is to provide rhetoric to cover for an imperialistic grab for oil and raw materials, and a desire to capitalize on Mexico's cheap labor to be able to batter U.S. labor into submission during the depression. It would seem that Administration planners have scenarios in which they think that U.S. and Mexican cheap labor will produce cheaply enough to undercut any possible economic growth in Western Europe, especially in their 1992 all-European market. Far from being a measure to bring prosperity, the Mexican-U.S. free trade deal is understood privately as a measure to help impose a permanent recession.

Finally, the best thing for our own economy would not be to export to Mexico those things that Mexico is capable of also producing, but to export those items, such as capital goods, high technology items, and heavy industrial items, to the extent we even have the means left to manufacture them. This would stimulate our own heavy industry sector, which is in the worst doldrums of any of our major industrial sectors, and would do more to revive our economy than any amount of light, consumer-oriented production in competition with Mexican workers.

We must commit to a trade policy based on parity prices--fair prices covering differing costs and returns on investment, for farm and industrial commodities and raw materials from all nations.

The free trade push has in reality been a cover for neo-colonialist practices that should be investigated and prosecuted under anti-trust laws. Instead, the Department of Justice has been deliberately protecting the lawlessness, doing the bidding of the Administration.

What's happening to the catfish farmers in Louisiana, who are selling their catfish for $1.99 a pound and Brazilian catfish being sold in Louisiana for $1.29 a pound, I ask you the question, "Which catfish are the poor folks going to buy?"

I give you a personal example of my cotton gin where the seed prices collapsed from $200.00 to $40.00 a ton four years ago, and I had to shut down my cotton gin on my own farm. And a thousand bales of cotton we had to

take and gin somewhere else because I wasn't prepared to lose a hundred thousand dollars. That year the Union Oil Mill (cotton seed oil plant) lost six hundred thousand dollars and now has been sold by the farmers in Monroe, Louisiana, to a foreign group.

For these reasons and others I have no time to elaborate, I join my voice to those who say this Mexico-U.S. free trade accord is no good, not for either economy. It is tantamount to economic warfare. Under no conditions should it be approved.

I have enclosed for the record some supporting information which I wish entered in the record.

In closing I quote former president of the United States, Abraham Lincoln. "If England builds the rails, they've got the money and we've got the rails; but if we build the rails, we've got the money and the rails."

Gentlemen, I suggest that you read the Report of the Manufacturers, written by Alexander Hamilton in 1791, and Henry Carey's Harmony of Interests, written in 1851. Also Economic Solutions are Possible by NORM.

Thank you very much. I will be glad to answer any questions at any time by any one.

Fred Huenefeld, Jr.
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Enclosures attached.

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Economic Justice Report

A periodical on global issues of economic justice

A Letter to Mexican Friends About Continental Free Trade

The following letter has been sent to a number of Mexican groups critical of the proposals for U.S./Mexican/Canadian 'free trade'. This letter is part of ongoing exchanges now taking place between concerned Canadians and Mexicans. We believe that the letter will also be interesting to readers of ***Economic Justice Report****, as a welcome expression of the solidarity work now emerging between our two countries. We hope that you will decide to become active in that work, if you are not already!*

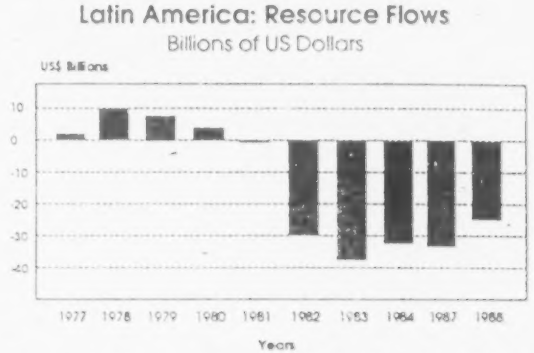
October 23, 1990
Panamerican Day of Action Against Payment of Foreign Debt

Dear Friends in Mexico,

It is now two weeks since our encounter in Mexico City. As those of you present already know, 27 Canadian and 60 Mexican popular groups representing trade unions, farmers, women, native people, the environment, churches and social movements came together at this encounter. Our common concern was governmental plans for continental free trade. The purpose of this letter is, first of all, to thank you for your generous hospitality and to reaffirm the solidarity expressed in our joint Final Declaration [reprinted at the end of this Report].

On this day of action against the payment of foreign debt, we repeat our profound conviction that the debt has already been paid. If anyone still owes anything, it is the transnational banks who owe compensation to Mexicans, Canadians, and the people of many other countries for the excessive interest payments the banks have extracted over the last decade.

From Latin America as a whole, when all financial flows are counted - loans and direct investments; interest and principal payments; capital flight and profit remittances - the net outflow of wealth over the decade 1976-1986 amounted to US$133.5 billion.[1] In net terms, for every dollar Latin America received from 1977-1980, six dollars flowed out from 1981-1986.



We feel it is entirely appropriate to protest governmental plans for continental free trade in conjunction with demonstrations against payment of the foreign debt. It is not incidental that private Canadian banks are among the strongest supporters of Canada-U.S.-Mexico free trade.

These banks together hold about Cdn $5 billion of Mexico's foreign debt. They are attracted to any policy which encourages Mexican production for export, because it increases their chance of collecting interest payments on outstanding loans. Yet allowing transnational banks to have first call on Mexican export earnings denies you capital for investment in domestic development. Our own international debt payments have a similar effect in Canada.

Ecumenical Coalition for Economic Justice
11 Madison Ave., Toronto, Ontario, Canada M5R 2S2

Crude Oil, Reserves and Rates of Production - 1989

Country or Region	Reserves (millions of barrels)	% of Total	Production ('000 barrels/day)	% of Total	Years to Exhaustion (at 1989 prod. rates)
Canada	6,134	1%	1,586	3%	11
U.S.A.	25,860	3%	7,676	13%	9
Mexico	56,365	6%	2,618	4%	59
North America	88,539	9%	11,882	20%	20
World Total	1,001,572	100%	59,381	100%	46

Petroleum is Crucial

Although we spent only a week with you in Mexico, we came away convinced that negotiations involving Mexico's non-renewable energy resources are crucial to the outcome of the talks now underway between the U.S., Mexican and Canadian governments. When it comes to dealing with U.S. plans for a continental energy pact, Canadians and Mexicans have much in common. Many in both countries are struggling to defend our energy sovereignty, our natural environment, and workers' and native peoples' rights.

The fact that the U.S. wants to consume more of Canada's and Mexico's non-renewable energy reserves is hardly surprising. It is projected that by the end of this century our giant neighbor will have to import two-thirds of the oil it consumes. The massive build-up of U.S. military might in the Persian Gulf demonstrates the lengths to which the Bush administration will go to assure continued oil imports.

The above crude oil reserves and production table, based upon 1989 data, is taken from an article you shared with us when we met in Mexico City.[2] The last column in the table shows the years to exhaustion of reserves at current (1989) rates of production for each country and for North America as a whole. Using the 1989 figures, Canada's conventional oil reserves will last 11 years - that is, until the year 2000 - the U.S.'s, nine years, and Mexico's, 59 years. If North American continental reserves were pooled, as the U.S. seeks to do through a North American 'free trade' agreement, the reserves would last 20 years, more than doubling the lifetime of U.S. reserves alone.

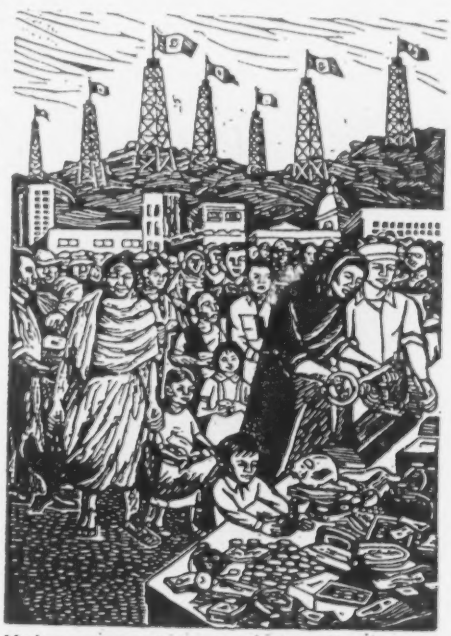
A pooling arrangement would lower the lifetime of Mexican reserves by 39 years (from 59 years to a pooled 20). Although the specific numbers are debatable - as are all estimates of oil reserves - the implications of pooling for Mexican energy security are clear. While the table appears to suggest that Canada would benefit from North America pooling, the actual plans of transnational energy corporations involve large net exports from Canada to the U.S. that would continue to undermine our own energy future. In fact, the terms of the Canada-U.S. trade agreement are already prompting significant development of costly Atlantic petroleum reserves (see pp.5-6 of this Report). The chief market for this and other Canadian offshore oil will be the U.S.

Insensitivity and Audacity

The insensitivity and audacity with which the Bush administration is pursuing Mexico's oil mirrors our own recent experience. They seem to have forgotten how important sovereignty over non-renewable natural resources is for the Mexican people, just as they ignore Canadian aspirations for sovereignty over our resources. We are encouraged by recollections of how Mexican campesinos and workers donated their personal possessions to help pay for the nationalization of the petroleum industry under President Lazaro Cardenas in March, 1938.

Recently, an official of the U.S. Commerce Department, speaking here in Canada, said that the threat of another "energy crisis" is a prime reason why the Bush administration wants to speed up trade talks with Mexico.[3] She dismissed any notion that cross-border migration of workers between Mexico and the U.S. would even be considered, while insisting that oil and gas must be part of the negotiations.

Even more audacious were statements made by Bernardo Grossling, a petroleum geologist working for the U.S. government, in an interview with El Financiero.[4] Grossling insists that Mexico could produce 500,000 more barrels of oil a day, an increase of 25% above the current production



Mexican peasants and workers giving their possessions to help nationalize their petroleum industry.

SUICIDE: "There's no pressure at all to sell oil," says the head of PEMEX, Mexico's national oil company.

ceiling set by Pemex, simply by opening up the valves. He also claims that Mexico has immense untapped petroleum resources comparable to those of Saudi Arabia. Grossling contends that if international finance capital had access to investment in Pemex, Mexican oil production could double in five years to five million barrels a day and double again in ten years to reach ten million barrels a day.

When Canadians hear these projections, we are reminded of the game that transnational oil companies played with supply and demand figures in the early 1970's. In 1972, the transnationals were telling us that Canada had sufficient oil for "hundreds of years." The following year, after the beginning of the so-called 'energy crisis', the same companies began warning us that conventional reserves of crude oil from southern Canadian fields would be sufficient to supply markets for no more than ten years.[5]

Private Foreign Investment in Pemex?

According to reports in your newspapers, the Mexican government has initiated internal discussions about the best method of introducing foreign participation in Mexican oil and gas exploration.[6] The Salinas government recognizes, these reports state, that opening up Pemex to foreign investors would carry a "substantial political cost." Instead, they are considering financial instruments or "trust" arrangements [known in Mexico as "fideicomisos"] which would leave the industry nominally in Mexican hands, while rewarding foreign investors handsomely for successful exploration ventures.

According to a feature article in **The Wall Street Journal**, a similar search is going on in the United States for ways to gain access to Mexico's oil "without stirring a political hornet's nest."[7] One approach might be for major U.S. oil companies to lend money to Pemex in return for a share of the oil discovered. However, "the U.S. majors show no interest in serving as [Pemex's] bankers. They want a piece of the action, including direct access to crude."[8]

The Wall Street Journal contributor argues that a 1982 precedent exists for giving transnational oil companies direct access to Mexican petroleum through a liberal interpretation of Article 27 of your constitution, which reserves direct ownership of all hydrocarbons to the Mexican state. But the actual case in point, the sale of US$1 billion worth of Mexican crude to the U.S. Strategic Petroleum Reserve, was much more than a simple business deal. It was part of an emergency bail-out of Mexico's finances, negotiated under extreme duress after the government of Mexico announced it could not make its foreign debt payments, in August, 1982.

PREPARING THE SIGNATURE: "Let's see... Let's see... Where do I sign the [U.S./Mexico] Free Trade Agreement?"

The toughest negotiations in that bail-out were over the sale of Mexican crude to the U.S. Strategic Reserve. At one point, the Mexican negotiators almost walked out because the U.S. Treasury demanded that they sell the oil for US$4 a barrel less than the prevailing world price. Eventually, the Mexican negotiators caved in, agreeing to pay extra fees and higher interest on the US$1 billion loan the Americans advanced to finance the oil sale. This settlement contravened both the price and market diversification goals of Mexico's official energy plan. It is reported that even President

Reagan was taken aback by the stiff terms of that oil deal. Treasury Secretary Donald Regan boasted that the President had called him "one hard-hearted S.O.B."[9]

The Reagan administration was clearly in a mood to demand concessions from Mexico when the '82 debt crisis hit. The day after the crisis became public, **The New York Times** published excerpts from a leaked U.S. State Department memorandum that revealed how some U.S. officials wished to use the new leverage offered by Mexico's financial difficulties. The memo said that Mexico "might sell more oil and gas to us at better prices" and Mexico "with the wind out of its sails" would be more willing to ease restrictions on foreign investors, negotiate trade agreements, co-operate to control illegal immigration and "be less adventuresome in its foreign policy and less critical of ours," especially in Central America.[10]

Canada's Role

One wonders if Bush administration officials realize that aggressive moves to capture Mexican oil could backfire and endanger the negotiation of any trade agreement. This is one reason why we suspect that the U.S. wants Canada at the table. The Mulroney government has already attempted to mislead Canadians into believing that the energy provisions of our trade agreement with the U.S. have meant no loss of sovereignty for our country. They would make a similar claim for Mexico, urging your government to adopt energy provisions like those in our present agreement.

Behind the Canadian government are powerful transnational business interests. We feel it is important that you know just what these Canadian backers of a continental trade pact are thinking. Canadian transnational corporations recognize that, for the time being, it may be politically impossible for the Salinas government to privatize Pemex as the Mulroney government is privatizing PetroCanada. They suspect that the Mexican people would not stand for it.

Therefore, Canadian transnationals seem to favour a deal permitting foreign penetration of the Mexican oil and gas industry without altering Mexico's legal control over non-renewable resources. This would have parallels with the practice in Western Canada, where the provinces still legally own the underground petroleum reserves, although exploration and development is dominated by private, transnational energy companies. (Privatizing PetroCanada, a federally-owned corporation, has no legal affect on the rights of the provinces).

Polysar, a former Canadian petrochemical crown corporation turned over to private investors when the Mulroney government privatized the Canada Development Corporation, is already playing a role in a series of gradual steps that will increase foreign control over Mexico's petroleum sector. To get around Mexican law limiting foreign direct investment in petroleum, the Salinas government reclassified 36 petrochemicals from the "basic" category, reserved exclusively for the Mexican state, to the "secondary" category, in which up to 40% private foreign ownership is allowed.

But foreign investors in petrochemicals still complain that Mexican foreign investment restrictions hinder vertical integration of the industry. Therefore, they will use the trade negotiations to bring U.S. and Canadian pressure upon the Salinas government in favour of further liberalizing your foreign investment laws, allowing vertical integration and more private foreign investment in the petroleum sector.[11]

A prime example from another industry of an arrangement that leaves nominal ownership in Mexican hands, while giving effective control to foreign investors, is the proposal by Bell Canada Enterprises for a stake in your national telephone company, Telmex.[12] Mexicans would retain 90% of the shares in Telmex while Bell Canada and NYNEX Corp., a New York phone company, would only own 5% each. At the same time Bell Canada and NYNEX would be given effective control over the management of Telmex.

For an investment of between US$350 million and US$400 million, Bell Canada would end up managing a company worth US$7 to US$8 billion. Bell Canada would not expect significant returns from dividends on its minority shares. Telmex might even operate at a loss while extensive investments are made in new technology.

The real profits for Bell Canada would come from management fees and sales of equipment to Telmex produced by Bell's manufacturing subsidiary, Northern Telecom. Northern Telecom in turn might lay off more workers here in Canada and transfer some of its manufacturing operations to Mexican maquiladoras, where young women earn only about 60 cents an hour assembling telephone equipment.

It's no surprise that Bell Canada is among the enthusiastic supporters of a North American agreement. If a trilateral agreement follows the designs of U.S. and Canadian corporate elites, Mexico would be obliged to treat foreign investors no less favourably than Mexican firms, give them patent protection for their technology similar to that provided under U.S. laws, and guarantee that foreign suppliers of services, e.g. management or computer processing, would also receive treatment no less favourable than Mexican firms. The distinction between maquiladoras, engaged in export-enclave production near the U.S. border, and foreign enterprises seeking to operate elsewhere in Mexico, would disappear.

A study prepared for the Business Council on National Issues (BCNI), transnational capital's lobby group in Canada, favours pressuring Mexico into accepting a "market-oriented oil policy." This is especially because Canadian petrochemical producers do not want Mexican competitors to gain access to feedstocks at below world market prices.[13]

The study implies that the basic deal to be offered would involve Pemex remaining nominally Mexican-owned, while allowing foreign companies more opportunities for investment in the petroleum, gas and petrochemical sectors. To seal such a deal, Mexico would have to accept the same obligations that Chapter Nine of the Canada-U.S. trade agreement imposes on Canada.

As we explained during our encounter earlier this month, this chapter blocks Canada from imposing any quotas, minimum prices or export taxes on oil and gas sales to the United States. Most damaging of all is Article 904, which obliges Canada to allow continued sales of non-renewable energy resources to the United States even in times of national scarcity.

In case of an emergency, such as a war in the Persian Gulf, Canada would be required to allow continued oil and gas exports to the U.S. at the same percentage of total sales (domestic + exports) as during the three previous years. Canada could not substitute one kind of oil for another (for example, a heavy crude for a lighter variety), nor could we set an export price higher than the domestic price we pay for our own oil.

Energy Megaprojects

At first glance, the prospect of new, foreign loans for energy exploration and development might appear attractive. However, we Canadians have considerable experience dealing with investors who promise prosperity through massive resource development. Currently, Canadians living in one of our most depressed provinces, Newfoundland, are being promised jobs and prosperity through the development of an offshore petroleum field known as Hibernia. But what will this energy megaproject really mean under conditions of continental free trade?

One of the surprises contained in the Canada-U.S. trade pact is Article 906. Whereas the general thrust of the whole agreement is to outlaw most government subsidies to do-

ACUERDO DE LIBRE COMERCIO ■ Helguera

FREE TRADE AGREEMENT:

"It's much better this way - no need to land troops at Vera Cruz or fight the cadets [who fought against an earlier U.S. invasion]."

mestic industry in the name of free enterprise, Article 906 explicitly states that governments are allowed to provide incentives for oil and gas exploration and development.

Accordingly, the government of Canada is giving a Cdn.$1 billion grant and Cdn.$1.7 billion in loan guarantees to the transnational corporate sponsors of the Cdn.$5.2 billion Hibernia project. What makes this huge subsidy from Canadian taxpayers to the likes of Mobil Oil, Chevron and Gulf Canada so outrageous is the fact that the companies developing the Hibernia field intend to ship nearly all their output to the United States. Eastern Canada will apparently remain, as it is today, heavily dependent upon imported oil.[14]

Our government claims that Canadians will nevertheless benefit from Hibernia, through the creation of 13,000 person-years employment. But the capital cost of this megaproject is so high that the annual cost of each job is over Cdn.$200,000.[15] Such capital-intensive investment will temporarily lower Newfoundland's 17% unemployment rate, the highest in Canada, by only about one percentage point. The same money invested in environmentally benign energy conservation projects could create at least three times as much employment for the people of Newfoundland.

Moreover, the Hibernia project endangers one of the world's richest fishing grounds, the Grand Banks. There high winds, rough seas and icebergs threaten to cause an oil well blowout or a tanker spill on the scale of the Exxon Valdez disaster. In the wake of the Valdez oil spill, the Bush administration has terminated drilling programs off the California and Florida coasts, where an estimated 4.7 billion barrels of oil might be recovered, seven times greater than the estimated size of the Hibernia field.

We don't have to remind you about the devastating effects that the Ixtac well blowout had on Mexican fishing in the Gulf of Campeche. Not only did it take two months to cap that runaway well, but the chemical dispersants used were known to kill off 90% of the plankton, vital to the food chain serving the Mexican fishing industry.

Is History Repeating Itself?

The bid to obtain more Mexican oil, and more foreign investment in the petroleum sector, seems a repeat of events 14 years ago. Remember how Mexico also had a financial crisis in 1976 and 1977? Then the Lopez Portillo government announced that Mexico had much larger petroleum reserves than had been previously reported. In 1977, Mexico's Finance Minister journeyed to New York to declare, "Oil will be the turning point of the Mexican economy."[16] How ironic those words turned out to be.

The foreign loans to Pemex that followed were a significant cause of Mexico's 1982 debt crisis. By the end of 1981, Pemex owed foreign creditors US$20 billion, up from US$3 billion in 1977. Between 1976 and 1982, the cost of servicing Mexico's foreign debt was greater than all of Mexico's petroleum export earnings. In fact, oil exports only covered interest on the debt - leaving the principal untouched.

Mexico is now approaching a crossroads even more dangerous than in 1976. Our reflection, dear friends, is that neither Canada nor Mexico can afford to tread down foreign borrowing roads to finance energy megaprojects whose output - and more! - must then be exported as payment to the foreign creditors.

This perverse investment threatens our environment, our fisheries, our sovereignty, the aboriginal rights of indigenous peoples, and our general economic and social future. If our societies are to find sustainable material abundance for all our people, then both Mexicans and Canadians must reject the false promise of prosperity offered by foreign creditors seeking to fund, and control, natural resource exports.

The energy/debt trap is only one part of the 'free trade' which the U.S. is now pressing upon Mexico. We in Canada join with you on this day of action against payment of foreign debt and against economic integration with the U.S. We believe that through our solidarity with one another we can secure our sovereignty and our future as two healthy, nurturing, independent communities on this planet.

Fraternally,

Ecumenical Coalition for Economic Justice

FINAL DECLARATION OF THE MEXICO-CANADA ENCOUNTER: SOCIAL ORGANIZATIONS FACING FREE TRADE

The people of Canada and of Mexico have, in recent times, suffered under the aggressive, protectionist, monetarist and neo-liberal policies of the United States government. They have imposed on us a strategy that follows the dictates of the International Monetary Fund and serves transnational corporations at the expense of our own development. The U.S. has already signed a Free Trade Agreement with the present Canadian government that impedes Canada's right to national development and sovereignty. The U.S. is following the same procedure with the Mexican government with the sole purpose of assuring U.S. interests and supremacy on a continental level. Although the present Mexican government still has not signed an agreement, it has implemented a series of economic, legal and labour policies that run in the same direction as the strategy of the U.S. government.

In our two countries the social cost of such policies has been terrible for the majority of people.

Moreover, these policies are aimed at promoting confrontations and competition be-

TRADE INTEGRATION ■ Rocha

"Nothing better than a game of golf to discuss business -- don't you agree?"

tween the workers of our two countries. But it must be made very clear that neither Canadian nor Mexican workers want divisive competition. We will not act like strike-breakers for anybody. On the contrary, we shall support economic development initiatives in our respective countries as long as they do not injure the rights of workers in other countries.

COMMON AGREEMENT

In this beautiful month of October, we representatives of 27 Canadian and 50 Mexican trade union, farmer, environmental, women's, indigenous peoples' and human rights organizations have met for three days. This first encounter is a point of departure for achieving activities in each of our countries to restrain foreign intervention at all levels, authoritarianism and anti-democratic governments.

Our concern is to strengthen the defense of our rights as workers, as citizens, as patriots. We want to establish new measures for meeting the fundamental needs of our peoples and for maintaining the sovereignty of our nations.

This first encounter of social organizations from both countries has clearly resulted in common agreement. Each of us wants a free homeland, not subjugated to anyone. Each and every one of us wants respect for the right to a decent life for all our citizens, especially the poor and marginalized who suffer most under a Free Trade Agreement.

THE CANADIAN EXPERIENCE: FALSE PROMISES

The Free Trade Agreement has already had clear effects for the Canadian people. Prime Minister Mulroney promised "jobs, jobs." After a year and a half of free trade there have been over 150,000 job losses, affecting one out of every twelve industrial workers. He promised the best adjustment assistance programs anywhere for displaced workers, but none were implemented.

The promise of new investment in Canada never materialized. Instead, the net outflow of foreign direct investment capital from Canada has been over Cdn.$4 billion since the trade and investment agreement was signed. The promise of respect for national sovereignty over natural resources was broken as Canada lost control over non-renewable petroleum, natural gas, mineral and water resources. Even in the case of a national emergency, Canada has to continue to supply energy to the United States in the same proportion as was sold over the previous three years.

Prime Minister Mulroney promised that the agreement would not touch culture, the soul of any nation, but government subsidies to the arts are being cut back. He promised that U.S. contingency protection laws would no longer apply to Canada, but Canada never won exemption from American anti-dumping and countervailing duty laws. He promised prosperity for the less-developed regions, for farmers and for fishers. But farmers are seeing import quotas for milk, eggs and poultry [supply management marketing programs] threatened. Fishers have lost the right to process their salmon and herring. Moreover, thousands of jobs have been lost in the food and service sectors.

THE MEXICAN EXPERIENCE: MORE FALSE PROMISES

Although Mexico has not yet signed an Agreement, we have been subjected to the same strategy. Since the 1960's, a process of "silent" integration of the Mexican economy into the American economy has been underway. This same process has accelerated in recent years since Mexico joined the GATT [General Agreement on Tariffs and Trade] and drastically lowered its tariffs.

The present Mexican government has weakened its Foreign Investment Law and its financial institutions through measures passed by executive decrees. We have also suffered capital flight amounting to more than US$50 billion.

The social effects of these policies have already been disastrous. Mexico has been converted into one of the countries with the lowest labour costs in the world. Numerous businesses have closed down because they were incapable of competing with transnational corporations and imports from the U.S. Open unemployment has reached the highest level in our post-revolutionary history. The government of Mexico is making the same promises that the Canadian government made two years ago: better economic development, more jobs, higher standards of living and income, no effect on the sovereignty of the Mexican nation. But what we are now seeing in Mexico is the contrary. The process of internationalization of our economies must follow a different dynamic which would lead to a new international economic order that would respect the different levels of development of our countries instead of benefiting only those groups who already wield great economic power.

A new order would recognize where responsibility for the foreign debt of the Third World and of Canada really lies [that is, with the authors of the monetarist and neo-liberal policies mentioned at the beginning of this declaration]. It would preserve the sovereignty of nations over the management of their resources. It would respect each na-

tion's choice of its own path to development, and it would not violate the social and trade union rights of communities.

COMMITMENTS

We, the representatives of organizations meeting here in Mexico City, have arrived at the following agreements:

1. To pursue the struggle in Canada for the cancellation of the Canada-U.S. Free Trade Agreement and to present for broad discussion a new economic strategy that would preserve sovereignty and allow integral national development.

2. To realize in Mexico the widest possible national consensus to prevent the signing of a free trade agreement with the United States and to provoke a national discussion concerning the development model and national plan we want to pursue before negotiating any treaty with the United States.

3. In both countries, we commit ourselves to mutual assistance and to sharing our experiences. We are creating a permanent binational commission to continue the work we started with this first encounter of social organizations facing free trade.

4. On October 23, we shall raise our voices in each of our countries in protest against free trade agreements and against payment of the foreign debt by developing countries. This date marks the fifth anniversary of the annual day of action on foreign debt observed across Latin America.

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Attached to this declaration is a statement from Brother Gord Wilson, president of the Ontario Federation of Labour, speaking on behalf of the Canadian Labour Congress. The statement was warmly welcomed and approved by the plenary assembly. [Report readers can obtain this statement upon request from the Ontario Federation of Labour, 15 Gervais Dr., Don Mills, Ontario, Canada.]

MEXICO CITY Oct. 7, 1990

NOTES

1. See Ecumenical Coalition for Economic Justice, **Recolonization or Liberation**, ECEJ (Toronto), 1990, pp.85-86.
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4. "'Sin Invertir un Solo Centavo,' Mexico Puede Elevar su Produccin Petrolera: B. Grossling," **El Financiero**, 10 Oct., 1990, p.18.
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9. See GATT-Fly, **Debt Bondage or Self-Reliance** (Toronto), 1985, p.35.
10. **The New York Times**, Aug. 14, 1982.
11. See United States International Trade Commission, "Review of Trade and Investment Liberalization Measures by Mexico and Prospects for Future United States-Mexico Relations," USITC Publication 2275, USITC (Washington, D.C.), April, 1990, pp.5-12.
12. "Mexico calling Bell," **Financial Post**, Sept. 19, 1990, p.1.
13. See Michael Hart, **A North American Free Trade Agreement: The Strategic Implication for Canada**, Centre for Trade Policy and Law (Ottawa), and The Institute for Research on Public Policy (Halifax), 1990, pp.116-118.
14. "Hibernia oil going to U.S.," **The Globe and Mail**, Sept. 20, 1990, p.B1. PetroCanada Chairman Bill Hopper told a Senate committee that only one-third of the production could find its way to Canadian refineries, according to **The Toronto Star**, Oct. 27, 1990, p.C1.
15. Brian O'Neill, "HIBERNIA: The crass art of mega-politics," **The Toronto Star**, Sept. 25, 1990, p.A17.
16. Cited in "Lessons from Mexico's Crisis," **GATT-Fly Report**, Vol.III, No.4, November, 1982, p.1.

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NORM

NATIONAL ORGANIZATION FOR RAW MATERIALS

by Charles Walters Jr.

The President's Message

It has always been realized that the harsh realities of free international trade cannot be endured without complaint by the farmers and workers involved. Always, there have been efforts to buffer the effects of debilitating foreign trade. Except during the Irish potato famine of 1840-1848, the British were not so hard hearted that they would endure mass starvation in homage to free trade, hence the corn laws and the countless measures invoked to alleviate the worst effects of a bankrupt idea.

The annihilation of American parity made it politically necessary to buffer the effects for the immediate future. Thus the hodge-podge of subsidy programs that came to punctuate the death rattle of the American farm. All the post-Eisenhower programs were invoked to keep outmigration just low enough and just high enough to keep revolution from breaking out in the countryside.

But the authors of public policy—that is, the shills for the international traders—never once abandoned their objective, namely reducing the buying power of the American dollar so that world disparities could be played off against each other to enrich the favored few.

GATT'S ORIGIN

GATT (General Agreement on Tariffs and Trade) was set up in 1948, the very year Congress passed its pilot parity breaking farm bill. At that time 23 nations joined this program for the purpose of impoverishing the world for the benefit of a few, namely lenders hard on the hunt for great debt potentials. The immediate objective of GATT was to remove the buffers against instant-economic relief by annihilating all of the steps individual nations might take to protect their own from the ravages of trade flow. This trade flow was based on the lowest common denominator price available in trade channels. Usually it meant six to ten cent an hour labor. Ultimately, by treaty, the several GATT powers hope to take away from Congress the right to set farm policy.

GATT leaders have not had an easy time of it, even though U.S. Presidents and USDA secretaries have been willing to sell their clients down the river. Except for Texas, not one State Department of Agriculture has even tried to inform its farmers of the consequences inherent in successes of the GATT rounds.

YEUTTER & HILLS

Understandably, the nations of Europe have balked at the GATT equation for free international trade. Farmers demonstrated effectively against the nostrums of Clayton Yeutter and Carla Hills, the annointed undertakers for American agriculture. They see their own agriculture debased and killed off under GATT auspices. They see their food supply in the hands of foreign sources—ironically, also in the hands of starving Third World nations. They recall how The Netherlands suffered starvation during the last months of WWII because too much of the food supply was imported. They do not want to paint their countries into that same corner again.

20 ACRES U.S.A.

THE URUGUAY ROUND

It is the above climate of opinion GATT seeks to overcome so that the free international trade theory period can enjoy its finest hour. This "finest hour" is being presented as a self evident truth, always without a single reference to the observed facts of the situation.

GATT business and rule making is done through multinational negotiations called "rounds." The current round, styled the Uruguay Round, began in 1986 at Punta del Este, Uruguay. The agenda includes further reduction of trade barriers and expansion of GATT rules to cover an additional 15 trade categories including agriculture, trade in services, intellectual property rights and trade related investment measures) and new rules for settling trade disputes.

In fact GATT is a Trojan Horse. Presidents from Kennedy on forward to Bush have viewed GATT as a mechanism for making an end run around a more sensitive Congress. The GATT promoters remember how Franklin D. Roosevelt upgraded Woodrow Wilson's "freedom of the high seas" euphemism into Reciprocal Trade Agreements. Using this new nomenclature, Roosevelt was able to elude the Constitutional requirement for Senate ratification of treaties. GATT is more ambitious. It relies on ratification by a subservient Congress for the purpose of ridding the nation of its farm problem.

Wisconsin State Farmer was forced to point out that not even Jim Hightower could reverse the direction of farm policy after GATT ratification. In fact it was Hightower publication of a [illegible] of frustration economics up fighting from their chairs. Here, in part and in abstract form are some of the paragraphs the Texas Department of Agriculture circulated shortly before negotiator Carla Hills and USDA Secretary Clayton Yeutter ran into a European stone wall.

THE SELLOUT

It is a fact that the Reagan administration wanted to use GATT to eliminate farm programs they did not support. U.S. Trade Representative Carla Hills stated this intention clearly in a letter to the government of El Salvador. She assured the Salvadoran government that the current administration was "pursuing the elimination of the U.S. sugar program through the agricultural negotiations in the Uruguay Round."

Moreover, Hills and Yeutter sought to change the farm policies of other countries. In October, 1989, Hills and Yeutter outlined a U.S. proposal to the GATT. The plan covered four areas of agricultural trade: *import access, export competition, internal support, and sanitary and phytosanitary measures.*

The Bush administration proposed

1. *Elimination of import quotas by converting quotas to tariffs, which would then be gradually reduced to zero or near-zero.* All quantity based import control measures, such as Section 22 of the farm bill and Senator Lloyd Bentsen's Meat Import Act of 1979, would be lifted. This would mean unlimited imports of beef, veal, mutton, goat meat, dairy products, cotton, peanuts and sugar into the U.S.

2. *Elimination of all export subsidies over a five year phase out period, except for bona fide food aid.* This included the U.S. Export Enhancement Program (EEP), export credit guarantees and marketing loans.

3. *Removal of GATT Article XI 2(a) and 2(c).* Article XI 2(a) allows nations to restrict food exports in times of local shortage or famine. Restrictions of food exports in times of shortage or crisis are more important than ever for developing nations. Often today, large portions of their agriculture sectors are controlled by foreign corporations which grow produce exclusively for export. If Article XI 2(a) is removed, a nation in crisis might be unable to direct these companies to alter their farming or their sales to meet the nation's domestic needs, even on a short-term basis. Article XI 2(c) permits each country to impose import quotas on agricultural products as long as a domestic supply management program is in place. Also, the U.S. proposal would ban export taxes on raw materials. These taxes have generated funds which have allowed many developing nations, Brazil and Argentina, for instance, to develop processing industries.

4. *Reduction or elimination of all domestic price-support policies.* This would include CCC loans, deficiency payments, input subsidies (federally subsidized irrigation water; "advantageous federal grazing fees; seed, fuel and fertilizer subsidies, electric power, some market-promotion programs, international marketing assistance and credit subsidies such as reduced interest FmHA loans and Texas Department of Agriculture's Linked Deposit Program. The current proposal among negoti[illegible] would "cap" spending levels for

assistance, domestic food aid, some marketing programs, research and extension, resource retirement programs and some food reserve programs.

5. Global harmonization of food safety and health standards on food imports. Authority for setting standards in such areas as pesticide residues, veterinary drug residues, and environmental contaminants in imported food would be delegated to an international scientific body called the Codex Alimentarius Commission, a subsidiary organization of the U.N.'s Food and Agriculture Organization (FAO) and World Health Organization (WHO). Imported foods would have to meet Codex standards instead of stiffer FDA or EPA standards. Any health and safety regulations holding imported foods to stricter standards than those set by the Codex could be challenged as trade barriers.

Any farm bill would have to comply with the GATT agreements. All Commodity Credit Corporation price-support programs (including the no-cost programs for peanuts and sugar and marketing loans for cotton and rice) would be eliminated. Deficiency payments for wheat, feedgrains, rice, cotton and wool would be eliminated. The only income support that would be allowed under the Yeutter-Hills proposal would be direct, welfare-type payments to farmers which are "decoupled" from production. Decoupled payments would be gradually phased out over either a five or ten year period. Given current budget constraints, such welfare-type payments would almost certainly fall to the budget cutter's axe sooner rather than later. The decoupling proposal was clearly rejected by farmers and congressional agriculture committees when it was first proposed in 1986.

It is projected that the removal of price-depressing farm programs (i.e., export subsidies, loan rates set well below world equilibrium levels) will result in higher world prices for grains and cotton. The USDA projects that while higher prices will result in greater cash receipts for farmers from actual sales in the marketplace, the increase in prices will not be sufficient to offset the loss of income from support payments.

USDA economists have calculated the "domestic price changes" resulting from the implementation of world multilateral trade liberalization. What they refer to as "price changes" are actually a comparison of U.S. prices after "liberalization" to the prices plus subsidies prior to "liberalization." In short, they compare a farmer's gross receipts before and after "liberalization" for each bushel or pound of production:

Beef, veal, lamb	+ 7%
Pork, poultry	+ 2%
Dairy products	−15%
Wheat	−44%
Feed grains	−33%
Rice	−59%
Oilseeds and products	− 7%
Sugar	−69%
All farm products	−13%

The "price changes" for meat products compare the change in gross prices. With increases in the cost of feed, net returns on meat products would decline, and lower incomes at the feedlot would be passed along in the form of lower prices paid to cow-calf operators.

Given these income losses, there is certain to be another "shakeout" of family farmers. Farm programs have a significant influence on the structure of agriculture and the health of the rural economy. Such a drastic change in farm policy would have a severe impact. Small and moderate-sized farms would be the hardest hit. According to USDA, farmers in the $40,000 to $99,999 gross sales category would lose 103% of their net farm income. Farmers with gross sales of $100,000 to $249,999 would lose 56% of their net farm income. The resulting shakeout would accelerate the concentration of land and assets into fewer and larger farms.

As a result, U.S. consumers would find their food supply produced by corporate-type factory farms. A concentrated system of food production would be less conscientious of consumer tastes and preferences and health and safety concerns and less able to adapt to meet these consumer needs. A factory-farm system of agriculture is less likely to produce food in humane and ecologically sound ways.

FREE TRADE THEORY

Free market theory says that markets can be won by the seller with the lowest price. In a competitive market, the seller with the lowest price will win the sale. U.S. farmers, who farm under stricter environmental standards and who have large capital investments—and therefore higher production costs—would not be competitive in some markets where less-developed nations have weaker environmental regulations, subsistence-wage labor and longer growing seasons. In these cases, technically the foreign farmer would have the competitive advantage. But the sales they gain would be based on poorer health standards, negative environmental impact and less-humane labor practices. In effect, U.S. farmers might be pressured to abandon higher environmental and living standards in order to cut their production costs in an effort to be competitive. The logical conclusion of free market theory, therefore, states that the seller who exploits the environment and workers to achieve the lowest price will win markets.

While free trade may mean greater U.S. access to export markets, the removal of import quotas also means multinational trading companies will have unlimited access to our market and all other overseas markets. For example, many developing nations are pressured to export raw agricultural products in order to earn foreign exchange to meet debt payments to U.S. banks, the International Monetary Fund or the World Bank. In many cases, developing countries have undercut the world price to boost their export sales because of their desperate need for foreign earnings. Production of food and other raw materials for export has taken priority over the environment, domestic hunger relief and development needs. There is significant pressure to open U.S. markets for the purpose of solving the Third World debt crisis.

Ironically, the reverse may be true in some cases. The removal of U.S. import quotas (in the case of sugar, for example) means developing nations which currently enjoy access to the U.S. market would have to compete with Australia (the lowest cost producer of sugar) for that U.S. market. The U.S. sugar import quota currently provides guaranteed access to the U.S. market for Argentina, Peru, Haiti, Mexico, Philippines and several other developing countries including El Salvador. And, under the U.S. sugar import quota system, these countries are paid substantially higher prices for their sugar in the U.S. than they get on the world market. This meta-suggestion of equity of trade has nettled Hills and Yeutter no end.

THE QUESTIONS

Hightower's staffers posed a necessary question. Won't some U.S. farmers clean up in a free market?

Some will do okay. But for producers of the biggest crops—corn, wheat, soybeans, cotton, rice—and livestock products, namely beef, pork, dairy, wool, it's not that simple.

No matter how efficient or innovative U.S. farmers are, they are saddled with higher production costs which put many of them at a disadvantage in the global marketplace:

- Chemicals prohibited in the U.S. for environmental and food safety reasons are available to foreign producers and U.S. farmers participating in commodity price-support programs comply with federal environmental regulations and soil and water conservation requirements unheard of in most other nations.
- Land costs in the U.S., while not as high as in Japan and some other nations, are much higher than for most of our chief agricultural export competitors.
- Farm labor, while at the low end of the wage scale in per country, costs substantially more in the U.S. than in Third-World nations. In addition, many farmers in the U.S. are required to carry liability and/or workers' compensation insurance—and comply with state and federal health and safety standards not demanded of farmers in many competitor nations.
- U.S. farmers, in an often futile effort to maintain even a moderate standard of living, have increased their gross incomes by farming more land. To do this, they've had to purchase—in addition to land—more and larger tractors, combines and other farm implements; the cost of this equipment has increased five- and six-fold over the past two decades.
- In addition, the cost of living in America is higher than in most of our competitor nations. U.S. farmers must pay U.S. prices for their groceries, clothing, housing and medicine. They feel as entitled as other Americans to enjoy decent cars, TVs and labor-saving appliances, and like other Americans, they want enough to provide for their children's educations and for their own

retirements.

If our innovative and efficient U.S. farmers were willing to accept a Third World standard of living, they could no doubt undercut the prices of farmers in other nations—even with the higher price of land in the U.S.

If global agriculture is indeed liberalized, as the U.S. negotiators are demanding, U.S. farmers are not only going to lose some export sales, they're going to lose some domestic sales, as well. For, while global trade—particularly the removal of import restrictions—may mean that some U.S. producers would have greater access to foreign markets, it would also mean that other nations will have greater access to our market. One option is to encourage our family farmers to find other lines of work while U.S. consumers look to Third World nations for more and more of our food supply.

And that's the crux of the ideological debate over agricultural trade. Yeutter and Hills—preaching the sanctity of the market and the gospel of comparative advantage—maintain that each nation should get its food from the least expensive source, even if it means bankrupting its own producers and becoming more dependent on foreign suppliers.

Under the harmonization proposal, American consumers would see some food-safety standards lowered, since in many cases U.S. standards are more stringent than the standards established by the Codex Alimentarius Commission. For example, the Codex allows much higher levels of U.S.-banned pesticides like DDT, heptachlor and aldrin than does the EPA. Imported bananas and peaches could have 50 times the amount of DDT allowed under U.S. law, and our federal Food & Drug Administration (FDA) would be unable to stop their importation without violating GATT guidelines. In effect Codex standards, not our own U.S. standards, would be applied at our border. And if the U.S. becomes reliant on the least-cost producer, as discussed earlier, more and more of our food will be imported and therefore subject to the standards of the Codex rather than the FDA.

Since Codex standards would apply only to imports, the U.S. could continue to impose its own standards on U.S. farmers. However, this would put U.S. farmers at a competitive disadvantage with foreign producers who farm by less strict standards, and it would almost certainly generate political pressure to ease safety standards on products grown in the U.S.

The GATT harmonization proposal could preempt decision-making by state governments, as well. State efforts to ban specific pesticides, like Alar, would be rendered ineffective because a treaty is the highest law in the land.

Are there environmental consequences to the U.S. proposal for free trade in agriculture? Yes, says Texas Department of Agriculture, and GATT is heading headlong without taking into consideration the environmental effects of the liberalization of world trade in agriculture. Negative environmental effects could follow from increased economic pressures generated by the removal of export and import controls and the phasing out of farm subsidies. For example, the elimination of U.S. beef import quotas would almost certainly mean greater imports of beef from South America. Unlimited access to the U.S. fast-food market could induce South American producers to accelerate the clearing of rainforests to make room for more cattle grazing.

Elimination of U.S. farm price supports would harm the environment by increasing the economic pressure on American producers. Many farmers, struggling to make up for the loss of income from farm programs, would compensate by intensifying production to make up in volume what was lost in value. Also, USDA estimates that under global trade liberalization, three out of every four acres now idled would be brought back into production, including a lot of marginal, highly-erodible land—the type of land most conducive to the rapid run-off of rain carrying farm chemicals into our rivers and streams. The more land in production, the more soil erosion and chemical use.

Elimination of export controls will take away a country's right to restrict exports for purposes of protecting a natural resource base. For example, the Philippines, which has lost 90% of its original forest cover, has banned the export of timber. Such protective measures would not be allowed under the new GATT proposal. Although the U.S. currently employs no export controls, environmentalists have argued for restrictions on exports of old-growth timber from the Pacific Northwest to protect both jobs and the forests in that area. If the U.S. position prevails, the liberalized GATT would stymie these efforts.

Who would benefit if the hard-line free trade position prevails in the GATT talks?

The big international grain trading companies would be the big winners. They could operate for the first time with no concern for national borders. Import quotas and tariffs, export restrictions or variations in international health and safety standards. They would be able to buy commodities cheap from countries that need the foreign exchange to cover their debts. With the elimination of the GATT's Article XI, which currently allows countries to restrict exports, the big traders will be able to buy and export commodities even from nations in which people are hungry. They will sell the commodities at a profit to industrialized and oil-rich countries who have the cash to pay. And if they sell at below the cost-of-production of the farmers in the importing nation, those farmers will be out of luck, since import restrictions will no longer be allowed under GATT guidelines.

ConAgra, also one of the "Big Five" grain traders, would be another big winner. Yeutter is rumored to be moving to ConAgra once the current round of GATT talks ends.

And as U.S. commodity programs (officially termed "price-stabilization" programs) are dismantled and the markets become more volatile, the commodity futures traders at the Chicago Board of Trade and the Chicago Mercantile Exchange will have greater opportunity to "buy low, sell high" and in general manipulate the markets even more than they have in the past. Yeutter, as the former head of the Chicago Mercantile Exchange, Global trading via satellite would soon command the world scene.

If agreement is reached at GATT countries, the Bush administration will write enabling legislation which will amend existing law or create new legislation to bring U.S. law into compliance with the GATT agreement. The legislation will be placed on a fast track, meaning Congress will have a 90-day deadline to vote on the legislation with a limit of 20 hours of debate and amendments will be allowed. Congress will be required to make either a yes or no vote. Congress authorizes this fast track, up or down approach to provide the administration "fast authority" to negotiate. The assumption is that our negotiators need the authority to make some potentially controversial concessions in the interest of reaching an agreement which is beneficial to the U.S. overall. In the current round of talks, however, U.S. negotiators are serving a radical ideology representing the view of a handful of giant corporations and are pursuing a course detrimental to U.S. farmers, consumers and the environment. Even if Congress disapproves of the agreement on agriculture, it will be pressured to vote yes on the entire package because of favorable and important provisions in other trade categories such as intellectual property, investment and services.

Senator Patrick Leahy, chairman of the Senate Agriculture Committee, and Representative Kika de la Garza, chairman of the House Agricultural Committee, have both stated their concerns about the administration proposal, calling for "farm policy to be written in Washington and not in Geneva."

The U.S. proposal was drafted by Daniel Amstutz, the U.S.'s chief agricultural negotiator. Prior to his government service Amstutz was a senior executive officer of Cargill, the world's largest international grain-trading corporation and, for that matter, the world's largest privately-held corporation.

A coalition of businesses and organizations is gearing up to lobby for congressional approval of a new GATT agreement, once it is achieved. They include IBM, Citicorp, Dow Chemical, the Pharmaceutical Manufacturers Alliance and others, many not concerned with agriculture at all.

THE ELITE

Such is the GATT picture. It stands stark naked in terms of economics. Farmers of the high plains know they cannot take a 14% acreage cut in wheat while they are barely surviving on a 33% of parity price level. The more astute of the farmers know that 33% of parity means a reduction in the generation of national income via wheat production times price and total annihilation of income generating activity via the multiplier when whole grains are shipped out of the country at [illegible] Shipping into cheap markets and importing into a cheap market defies the arithmetic of prosperity for the many. The elite Cargill, Hills and Clayton Yeutter [illegible] But from the vantage point of Omnipotence, farmers probably appear to [illegible] many peasants [illegible] to the demands of [illegible] Romanov [illegible] happens [illegible] above. There is [illegible] The function [illegible] chief of [illegible] end up on [illegible]

Chairman GIBBONS. Well, on that note I think we better quit for the day.

This concludes the hearings for today. We will resume again at 9:30 next Thursday, February 28 in this room.

I thank each of you for coming very much.

[Whereupon, at 4:16 p.m., the subcommittee was adjourned, to reconvene at 9:30 a.m. on Thursday, February 28, 1991.]

PROPOSED NEGOTIATION OF A FREE TRADE AGREEMENT WITH MEXICO

THURSDAY, FEBRUARY 28, 1991

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON TRADE,
Washington, DC.

The subcommittee met, pursuant to notice, at 9:30 a.m., in room 1100 Longworth House Office Building, Hon. Sam M. Gibbons (chairman of the subcommittee) presiding.

Chairman GIBBONS. Good morning, ladies and gentlemen. As all of you know, this is a hearing of the Subcommittee on Trade of the Ways and Means Committee, to discuss and receive testimony from witnesses on the proposed negotiation of a United States-Mexican free trade area.

We have a great many witnesses this morning, and I hope that all who will testify will understand that their written statements will be made a part of the record. I would ask you to please summarize as best you can.

The first panel this morning consists of the National Foreign Trade Council, the National Association of Manufacturers, the U.S. Chamber of Commerce, and the American Association of Exporters and Importers; Mr. Kittredge, Mr. Baroody, Mr. Workman, and Mr. Cuza.

Mr. Kittredge, we will go to you first.

STATEMENT OF FRANK D. KITTREDGE, PRESIDENT, NATIONAL FOREIGN TRADE COUNCIL

Mr. KITTREDGE. Thank you, Mr. Chairman. My name is Frank Kittredge, and I am president of the National Foreign Trade Council. I am testifying today on behalf of our 500 member companies.

These hearings have raised a broad range of issues affecting United States-Mexican relations, but I am going to restrict my comments to four areas: What National Foreign Trade Council member companies see as the benefits of an agreement with Mexico; our concerns about possible adverse effects on the United States economy; the objectives and components of an agreement; and the importance of the fast-track procedure.

In preparation for these hearings and for the work we do normally here, the National Foreign Trade Council surveyed a broad cross section of our membership on the likely impact of a trade agreement with Mexico. The responses reflect the views of an array of business sectors: capital goods, chemicals, consumer prod-

ucts, energy, financial services, pharmaceuticals, auto products, telecommunications, construction equipment and services, and computers and electronics. All of those areas have responded to the survey. My comments are, to a large extent, based on the findings of that survey.

At the outset, it should be emphasized that the National Foreign Trade Council strongly supports the President's initiative to negotiate a free trade agreement with Mexico. The fundamental conclusion of our study is that a comprehensive agreement would strengthen economic relations between the United States and Mexico and spur economic growth and employment in both countries.

Specifically, a free trade agreement with Mexico would increase investor confidence and stimulate investment flows. One of the clearest benefits to National Foreign Trade Council members lies in the investment area: to expand current Mexican investment practices, to improve intellectual property protection, to establish disciplines over price controls, and to reduce fears of government intervention in investment activities. One member company estimates that an agreement would add 1 to 1.5 percent annually to Mexico's GDP growth.

Second, United States exports to Mexico would increase. Ninety-two percent of our survey respondents believe that increased investment and accelerated economic development will greatly increase demand for U.S. capital equipment and technologically advanced goods. Last year's surge in imports into Mexico, after its relaxation of internal controls, suggests that there is considerable pent-up demand for consumer goods as well. One company estimates that tariff elimination, couple with increased economic growth, will improve their export prospects by 15 to 20 percent.

Third, U.S. global competitiveness would be enhanced. NFTC members believes that under a free trade agreement, U.S. companies can further rationalize their operations, realize economies of scale, and increase the quality of their products. The results will surely improve U.S. global competitiveness.

Fourth, the U.S. services sectors would be positively impacted. Market access opportunities for the U.S. services industry under an FTA are regarded as significant by NFTC companies. Increases in foreign direct investment would necessitate expanded and competitive financial services, while the whole array of services industries would grow to support the anticipated development of Mexico basic industries.

Last, the standard of intellectual property rights protection would be raised. American companies broadly concur that support for an agreement depends upon Mexico bringing its intellectual property rights up to international standards. Mexico is committed to passing an acceptable intellectual property law this spring, but action must be taken before or as part of an FTA.

In response to our question on the potential downside of an agreement, a large majority of our member companies saw no long-term disadvantages to the United States, providing that the agreement is comprehensive and properly implemented. The three areas of greatest concern to our members were:

Short-term labor dislocations. NFTC member companies are sensitive to the possible loss of low-skilled manufacturing jobs, although most of our companies see an agreement creating more and better jobs in a stronger and more competitive economy. While we recognize the need to effectively address this displacement issue, our members expect an agreement to yield a net increase in U.S. jobs. One NFTC company, for example, asserted that the expanded Mexican business opportunities under the FTA will double the 1,500 jobs in the United States now supported by their current operations in Mexico.

Third-country backdoor penetration into the U.S. market. An FTA with Mexico could make the United States domestic market more vulnerable to penetration by Far Eastern countries, and this issue should be given further analysis and discussion. Most of our members agree that such vulnerability can be minimized by proper rules of origin provisions and other legal safeguards in the FTA.

Last, a U.S. shift toward a system of regional trading blocs. Although some companies express concern that the FTA could mark a policy shift away from multilateralism, their clear expectation is that an FTA will not diminish America's commitment to multilateralism, and that an agreement with Mexico will be consistent with GATT rules and the principles of liberalized trade.

Some of the elements of a United States-Mexican FTA have already been mentioned. Other components are necessary if we are to minimize possible adverse effects on U.S. trade competitiveness. A comprehensive and GATT-consistent FTA should at least include the following provisions:

Restrictions on both new investment and the expansion of existing investment should be prohibited, while protection should be provided against nationalization or expropriation.

Second, all tariff and nontariff barriers should be eliminated with tariff reductions being made symmetrically over a reasonable period of time.

An agreement should enhance the protection of intellectual property in Mexico by extending protection to all areas of technology, and should not only protect trademarks and patents but also copyrights, trade secrets, and industrial designs.

Last, rules and procedures for the liberalization of services trade should be established, and the agreement should include effective dispute settlement provisions similar to those in the United States-Canada Free Trade Agreement.

Finally, the National Foreign Trade Council strongly supports an extension of the President's fast-track authority. This authority, while critical to the process of negotiating a free trade agreement with Mexico, is fundamentally important to our country's efforts to open markets and liberalize trade around the world. We are convinced that maintaining the fast track is vital to our national interest and to our ability to provide global leadership on trade.

Complaints have been made that the fast-track procedure is too limited to fully debate all the issues raised by a complex trade negotiation, as with Mexico. However, the record shows that the fast track has worked well and that the authorizing statute sets out extensive consultation requirements.

Fast-track authority places Congress directly in the trade agreement process and does not result in blanket acceptance of a trade agreement. Congressional involvement in each stage of the process is vital to the development of a successful trade agreement. At the same time, there is no question among our companies that trade negotiations themselves, including, of course, the Mexican free trade agreement, cannot be successfully conducted without the fast-track procedure in place.

Thank you, Mr. Chairman.

[The prepared statement follows:]

REMARKS OF FRANK D. KITTREDGE
ON BEHALF OF
THE NATIONAL FOREIGN TRADE COUNCIL
BEFORE
SUBCOMMITTEE ON TRADE
WAYS AND MEANS COMMITTEE
U.S. HOUSE OF REPRESENTATIVES
FEBRUARY 28, 1991

Mr. Chairman, Members of the Committee:

My name is Frank Kittredge and I am President, National Foreign Trade Council (NFTC) and am testifying today on behalf of our members. The NFTC is an association of more than 500 companies involved in international trade and investment. Since a significant number of NFTC companies either maintain a business presence in, or actively trade with Mexico, we are pleased to participate in these important hearings on the proposed negotiations of a free trade agreement with Mexico.

Although these hearings have raised a broad range of issues affecting U.S.-Mexican relations, I will restrict my comments to four areas: what NFTC member companies see as the benefits of a comprehensive trade and investment agreement with Mexico; our concerns about possible adverse effects on the U.S. economy of broad trade liberalization with Mexico; the specific objectives and major components of an agreement; and the importance of the fast-track procedure for the Mexican negotiations.

In preparation for these hearings, as well as for playing a useful role in the debate on a free trade agreement with Mexico, NFTC's International Trade and Investment Committee surveyed a broad cross-section of the organization's membership on the likely impact of a trade agreement with Mexico, both on their own company and on the U.S. economy. The responses reflect the views of an array of business sectors: capital goods, chemicals, consumer products, energy, financial services, pharmaceuticals, auto products, telecommunications, construction equipment and services, and computers and electronics. My comments are to a large extent based on the findings of that survey.

At the outset it should be emphasized that the National Foreign Trade Council strongly supports the President's initiative to negotiate a free trade agreement with Mexico. The fundmental conclusion of our study is that a comprehensive agreement would strengthen economic relations between the U.S. and Mexico and will spur economic growth and employment in both countries.

Benefits of a Free Trade Agreement (FTA). The majority of the benefits that NFTC companies see flowing from an FTA will not be immediately realized and depend upon the negotiation of a comprehensive trade and investment agreement which will eliminate an array of current restrictions, alter capital and trade flows, and accelerate economic growth in Mexico and in the United States. The economic growth process which follows the conclusion of a trade agreement is clearly set out in the recent International Trade Commission (ITC) study jointly requested by your committee, Mr. Chairman, and by the Senate Finance Committee. We generally support the findings of the ITC study which complement the conclusions of the "Analysis of Economics Effects of a Free Trade Area between the U.S. and Mexico", just released by the U.S. Council of the Mexico-U.S. Business Committee.

First, my remarks will focus on the specific aspects of an agreement which are most likely to have a positive impact on our member companies.

- An FTA with Mexico would increase investor confidence and stimulate investment flows. One of the clearest benefits of an FTA to NFTC members (97% of survey respondants) lies in the investment area. Not only would an agreement reduce fears of possible expropriation and government intervention in investment activities, but it would formalize and expand upon current Mexican investment practices. An agreement would provide investment access beyond current Mexican law and regulations, improve intellectual property protection, and establish disciplines over price controls. The analysis of one member company projects that an agreement would add 1 to 1.5% annually to Mexico's GDP growth on top of an already favorable outlook for the 1990s.

- U.S. exports to Mexico would increase as a result of free trade with Mexico. There is nearly unanimous agreement among NFTC companies (92% of survey respondants) that U.S. exports to Mexico will increase substantially under an FTA, particularly in the longer-term. Increased investment and accelerated economic development will greatly increase demand for U.S capital equipment and technologically advanced goods. Mexico does not have a computer industry, for example. Last year's surge in imports into Mexico, after its relaxation of internal controls, suggests that there is considerable pent-up demand for consumer goods as well. One company surveyed estimates that tariff elimination, coupled with increased economic growth, will markedly improve their export prospects, with an increase in sales to Mexico of 15-20 percent. This growth represents $35-45 million over this company's exports anticipated without an FTA.

- U.S. global competitiveness would be enhanced by an FTA. NFTC members (90% of respondants) believe an FTA would have a major impact on the ability of U.S companies to effectively compete in world markets. Although Mexico is much smaller than the U.S., the economies are regarded as complementary. Under an FTA, U.S. companies can further rationalize their operations, realize economies of scale, increase the quality of their products, and lower costs. The resulting cost and quality competitiveness is strongly associated with increased U.S. productivity and a rising standard of living in both countries.

- U.S-Mexican free trade would postively impact the U.S services sector. The market access opportunities for the U.S. services industry under an FTA are regarded as significant by NFTC companies (94% of respondants). Expected increases in foreign direct investment in Mexico under the agreement would necessitate expanded and competitive financial services, while the whole array of service industries must grow to support the anticipated development of Mexico's basic industries. Many of Mexico's current restrictions on U.S. service activities should be lifted by the FTA.

- An FTA would raise the standard of intellectual property rights protection under Mexican law. An important benefit for the U.S. in a Mexican FTA is effective protection of intellectual property (79% of respondants). American companies are in strong agreement that their support for an agreement depends upon Mexico bringing its intellectual property rights up to international standards. Mexico is committed to passing an acceptable intellectual property law this Spring, but action must be taken before, or as part of, an FTA.

While these findings show that U.S business and the U.S. economy would clearly be advantaged in a number of very important ways, the NFTC survey also indicated a number of "lesser" benefits to specific business segments. These additional business benefits from an FTA with Mexico include: greater market access to Latin American markets; improved tax treatment of U.S. companies operating in Mexico; enhanced consumer demand for U.S products; creation and maintenance of higher paying U.S. jobs; greater U.S. participation in developing and marketing energy resources; and increased market access in Mexico for a wide range of financial services products.

Adverse Effects of an FTA with Mexico. The NFTC and its member companies are aware that the members of this Committee, and the Congress, have heard expressions of specific concerns over an FTA with Mexico. Wanting to be sensitive to our own members' views on the "downside" of a free trade agreement with Mexico, we asked our companies to evaluate those trade related impacts of an FTA most commonly regarded as adverse. A large majority of our member companies saw no long-term disadvantages to the United States in an agreement with Mexico, provided that it is comprehensive and properly implemented. The questionnaire raised issues related to the Caribbean Basin Initiative, Canada, the development of regional trading blocs, U.S. market vulnerability, the loss of U.S. jobs, and the decline in competitiveness of specific U.S. industries. Comment seems appropriate on three areas of greatest concern to our members.

° Some short-term labor dislocations seem to be associated with an FTA, but job losses will be more than offset by an increase in U.S. demand for skilled workers. NFTC member companies are sensitive to the possible loss of low-skilled manufacturing jobs with the implementation of a U.S.-Mexican FTA. This was the biggest potential problem raised (by 33% of the respondants), although most of our companies see an agreement creating more and better jobs in a stronger and more competitive economy. Most regard the displacement of low U.S. wage earners as primarily a function of a larger structural problem, which the proposed FTA highlights but only minimally impacts. We recognize the need to effectively address the displacement issue. However, our members expect an agreement to yield a net increase in U.S. jobs. One NFTC company, for example, asserted that the expanded Mexican business opportunities under the FTA will double the 1500 jobs in the U.S. now supported by their current operations in Mexico.

° Third-country "backdoor" penetration into the U.S. market is a potential problem to be resolved in the FTA negotiatons. A small but concerned segment of NFTC member companies (19% of survey respondants), expressed the fear that an FTA with Mexico could make the U.S domestic market more vulnerable to penetration by Far Eastern countries. A number of companies feel that this issue should be given further analysis and discussion. Most of our members do not find this worrisome and agree that such vulnerability can be minimized by proper rules of orgin provisions and other legal safeguards in the FTA.

° An FTA with Mexico should not move the U.S. toward a system of regional trading blocs and away from a multilateral trading system. Although a group of companies (31% of the respondants) expressed concern that the FTA could mark a trade policy shift away from multilateralism, our member companies do not generally feel that a breakdown of the GATT system would be in any way associated with a Mexican FTA. Their clear expectation is that an FTA will not diminish America's commitment to multilateralism, and that an agreement with Mexico will be consistent with GATT rules and the principles of liberalized trade. The development of trading blocs would be more directly linked to a failure of the Uruguay Round.

Regarding other possible adverse impacts, our members see no significant linkages between the conclusion of an FTA with Mexico and any of the following: a dilution of trade preferences under the Caribbean Basin Initiative; erosion of trade relations with Canada; deterioration of Mexico's political environment; or a decline in U.S. competitiveness.

Elements of a Free Trade Agreement. Some of the major elements of a U.S.-Mexican FTA have been mentioned. Most of them relate to what is needed by both parties for a commerically meaningful agreement in terms of investment, exports, services, and the protection of intellectual property rights. Other components are necessary if we are to minimize possible adverse effects on U.S. trade competitiveness. A comprehensive and GATT-consistent FTA should include the following provisions:

- Investment - Restrictions on new investment and the expansion of existing investment should be prohibited, at the same time providing for the transition of existing investment into the new liberalized investment scheme. Foreign investors should be accorded national treatment, performance requirements should be prohibited, and protection should be provided against nationalization or expropriation. The agreement should also assure the repatriation of profits.

- Trade in goods - All tariff and non-tariff barriers should be eliminated, with tariff reductions being made symmetrically over a reasonable period of time. Common rules of origin should be established along with provisions that will ensure their uniform application. The same "value-added" rules that apply to the Canada FTA should be adopted.

- Intellectual property - Both countries should not only protect trademarks and patents, but also copyrights, trade secrets, and industrial designs. An agreement should enhance the protection of intellectual property in Mexico by extending protection to all areas of technology, prohibiting compulsory licensing requirements, and harmonizing enforcement procedures for the protection of sound recordings and computer software. The agreement should also require effective sanctions for violations of intellectual property laws.

- Services - Both countries should agree to general obligations including a standstill on barriers, national treatment, a right of establishment, and transparency. Rules and procedures for the liberalization of services trade should be established along with dispute settlement provisions.

- Government Procurement - An agreement should ensure that government entities not discriminate against products that meet the "rules of origin" test.

- Dispute Settlement - The agreement should include effective dispute settlement provisions similar to those in the U.S.-Canada FTA.

Fast Track Authority. The NFTC strongly supports an extension of the President's fast track authority for negotiating trade agreements. An extension of this authority, while critical to the process of negotiating an FTA with Mexico, is fundamentally important to our country's efforts to open markets and liberalize trade around the world. We are convinced that maintaining the fast track is vital to our national interest and to our ability to provide global leadership on trade.

There have in the past been isolated complaints that the consultative mechanism established by the fast track statute has been ineffective. Currently, the suggestion is being made in some quarters that the fast track procedure is too limited to fully debate all of the issues raised by a complex trade negotiation, as with Mexico. However, the record shows that the fast-track has worked well, and that the authorizing statute sets out extensive consultation requirements. Congress is given 60 days

notice of an intent to negotiate and 90 days notice before entering into a trade agreement. These periods offer opportunities not only for consultation with the Administration, but also a chance for the private sector to express their views. An especially critical part of the consultative process is the development of implementing legislation. After all of these steps are taken, Congress still has the opportunity to reject an agreement by majority vote of either house.

Fast track authority does place Congress squarely in the trade agreement process and in no way does it result in blanket acceptance of a trade agreement. The opposite is in fact true. Congressional involvement in each stage of the fast track process is vital to the development of a successful trade agreement. At the same time, there is no question among our companies that trade negotiations themselves cannot be successfully conducted without the fast track procedure in place.

In conclusion, I would like to reiterate our strong support for the negotiation of a free trade agreement with Mexico. It is an ambitious undertaking, but it can be accomplished. Our companies believe that a comprehensive agreement is certain to have a positive impact on our economy and on the Mexican economy as well. The U.S. relationship with Mexico is as important as it is complex, and there are many issues our two countries must resolve as we expand our relationship as neighbors. With trade such an important element in this relationship, these negotiations are a critical first step in the positive development of U.S.-Mexican relations.

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Chairman GIBBONS. Mr. Baroody.

STATEMENT OF MICHAEL BAROODY, SENIOR VICE PRESIDENT, NATIONAL ASSOCIATION OF MANUFACTURERS

Mr. BAROODY. Thank you, Mr. Chairman.

My name is Michael Baroody and I am here for the National Association of Manufacturers. We appreciate your leadership in arranging these confidential hearings, and value very much the opportunity to participate and share with you the NAM's views on the issues involved.

Earlier this month, Mr. Chairman, the NAM board of directors adopted a resolution that begins with this statement:

> The National Association of Manufacturers believes that the creation of a North American free trade area could benefit American manufacturers, and supports the efforts of the United States, Mexican and Canadian Governments to negotiate the three-country, free-trade agreement that would be the foundation of an open North American market.

In as much as the United States and Canada already enjoy bilateral economic cooperation under the terms of the 1988 agreement, it is appropriate that the focus of these hearings should be on a U.S. Free Trade Agreement with Mexico. This committee must deal with two questions. First, should Congress allow the proposed negotiations on a North American free trade area to proceed on the assumption that the final deal will be entitled to the special fast-track procedures of the 1988 act? Our answer to that question is, yes.

The second question is, Should Congress extend for another 2 years the period in which the fast-track provisions of the 1988 Trade Act can be used for qualifying trade agreements? Here again, we answer, yes.

If fast-track authority is extended there's a good chance that the Uruguay round will be brought to a positive conclusion and that a constructive new North American agreement will be negotiated with Mexico and Canada. If it is not, we fear the Uruguay round will become a high-cost failure for which the world will blame the United States. The trilateral North American agreement will also be written off as an untested and stillborn idea.

United States trade is far more diverse than that of Canada, Mexico and many other countries. We have a $190 billion trading relationship with the European Community, with Canada $175 billion, with Japan $138 billion, with Mexico $59 billion, with Korea $33 billion, and with the OPEC countries $41 billion. This diversity is one reason why a successful conclusion to the Uruguay round should be this country's highest priority in international trade. The Uruguay round will affect the rules governing our trade with all of our major trading partners. And it will influence the nature of the opportunities open to American firms in virtually every market in the world.

As to trade in North America, U.S. trade, it differs in some respects with our trade with other parts of the world. First, it is characterized by intracompany trade to a greater degree than elsewhere. Whether one focuses on the United States-Canada auto pact or the maquiladora programs, what one sees is production sharing on a grand scale. To one degree or another the economies of all

three countries depend upon the same firms for their economic well-being. And most of those firms are engaged in intensive, unremitting global competition. It is in the interest of all three societies that those firms be as efficient as possible. The principal arguments for negotiating a North American free trade agreement are that it could both enhance competitiveness and increase economic activity in all three countries.

The second characteristic of our trade with Mexico and Canada is that it is trade with neighbors. As such, it carries with it political implications, which if not absent are less prominent in other trading relationships. The French one hears in Vermont and Maine and the Spanish spoken in California and Texas gives testimony to that.

It's been argued that we should not attempt a free trade agreement with Mexico because the disparity in per capita income levels is too great. To the extent that an agreement should work to raise income levels in Mexico, the argument runs the other way. No one benefits from envious neighbors or impoverished customers. Our interests lie in the opposite direction.

Indeed, several major American corporations, including Rubbermaid, Chrysler, and Procter & Gamble, and Eastman Kodak expect to see new export opportunities as a result of the combination of a North American free trade agreement and an increase in the size and purchasing power of the Mexican middle class.

Two facts need to be kept in mind. The first is that we have and will continue to have a large and growing economic relationship with Mexico; and the second is that it is the Mexican economy which in relative terms is still closed. None of the potential advantages of a United States-Mexico agreement are assured. In view of the persistance of the U.S. trade deficit and the growing importance of trade to the United States it is essential that the United States proceed carefully and with a clear sense of U.S. economic goals. As supportive as we are of the President's intention to negotiate a new North American agreement, NAM would oppose any agreement with Mexico that did not clearly advance the economic interests of American manufacturers. There are two obvious guidelines for these negotiations. First, that it be consistent with GATT; second, it should be comprehensive, as was the 1988 United States-Canada agreement. Beyond these two guidelines, we would urge the negotiators to pay particular attention to the following six objectives.

First, that tariff reductions should be symmetrical; both countries should achieve zero tariffs in the same timeframes on the same products.

Second, investment. While Mexico's investment rules need to be further liberalized, this should be done in a manner and in a timeframe that minimizes economic harm to those American firms that have significant investments in Mexico.

Third, the agreement should contain effective and enforceable provisions for the protection of intellectual property.

Fourth, the agreement should provide mechanisms for ensuring that the benefits of the agreement accrue primarily to the North American participants.

Fifth, the testimony this committee has already heard suggests that individual sectors of the U.S. economy may be adversely impacted by import surges associated with the agreement. The agreement needs to incorporate a safe-guards provision to address this.

Sixth, the agreement should contain clear language regarding each party's access to energy and energy markets. Because energy and petroleum feedstocks are so important to so many industries, failure to address this issue could easily turn a free-trade agreement into an inequitable adjunct of one party's industrial policy.

Mr. Chairman, over 80 percent of the industrial output of the United States is represented by members of the NAM. It is not our practice to focus on any one industry. However, I would suggest to you and to the U.S. negotiators that we need to look very closely at developments in the automotive sector. This sector accounts for the lion's share of United States trade with Mexico and United States investment in Mexico. If the agreement doesn't work for the American automobile companies it is probably not a good agreement.

The issue of the wage rate disparities between the United States and Mexico concerns everyone. Everyone concerned with these negotiations will be examining it closely, over the course of the next several months. Wages are far from the sole determinant when companies decide on plant locations, and, indeed, over time, they become an important consideration in fewer cases as automation reduces the labor component of production. It is undeniably true that the wage disparities between the United States and Mexico are great, but they are not so great as often reported.

Almost certainly the agreement would have the effect of narrowing the gap over time by raising wages in Mexico. In light of what we have learned so far, we do not believe there will necessarily be an adverse impact on wages in the United States. Environmental questions, too, have properly been raised in the discussion about the proposed agreement. NAM does not propose that the agreement contain a chapter on environment, but we do think it important that the U.S. Government carefully analyze the likely trade consequences of the differences in the environmental protection regimes of the two countries. On the question of how the agreement will affect the environment of the Earth we are not inclined to be pessimistic. New investment in Mexico associated with the agreement is likely to be state-of-the-art, and less likely to harm the environment than existing facilities. Also, as Ambassador Hills has noted, a richer Mexico will be in a better position to enforce environmental laws.

Mr. Chairman, there are other considerations which I have not discussed that also need to be addressed. But this is only the beginning of the process. NAM will be reviewing these issues regularly over the next several months. Even at this stage, however, I can say with some confidence that a North American free trade agreement that clearly reflected the guidelines and objectives described above, would almost certainly enjoy our enthusiastic support.

Thank you, Mr. Chairman.

[The prepared statement follows:]

TESTIMONY

OF

MICHAEL BAROODY
SENIOR VICE PRESIDENT
NATIONAL ASSOCIATION OF MANUFACTURERS

BEFORE THE
SUBCOMMITTEE ON TRADE
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

FEBRUARY 28, 1991

Mr. Chairman, Members of the Subcommittee, I am Michael Baroody, and I am the Senior Vice President for the National Association of Manufacturers. We appreciate your leadership, Mr. Chairman, in arranging this very thorough schedule of hearings on the proposed North American Free Trade Agreement. We value this opportunity to participate and to share with you the views of the National Association of Manufacturers on the issues involved.

Earlier this month, the NAM Board of Directors adopted a resolution that begins with this statement:

> The National Association of Manufacturers believes that the creation of a North American free-trade area could benefit American manufacturers and supports the effort of the U.S., Mexican, and Canadian governments to negotiate the three-country free-trade agreement that would be the foundation of an open North American market.

Inasmuch as the United States and Canada already enjoy bilateral economic cooperation under the terms of the 1988 Canada-U.S. Free-Trade Agreement, it is appropriate that the focus of these hearings should be on the idea of a U.S. free-trade agreement with Mexico.

TWO QUESTIONS: I. NORTH AMERICAN NEGOTIATIONS AND II. FAST-TRACK

This Committee must deal with two questions. The first is, Should Congress allow the proposed negotiations on a North American free-trade area to proceed on the assumption that the product of those negotiations will be entitled to the special fast-track procedures of the 1988 Trade Act? NAM's answer to this question is yes.

The second question is related but far from identical. It is: Should Congress extend for another two years the period in which the fast track provisions of the 1988 Trade Act can be used for qualifying trade agreements. Here again, our answer is yes.

FAST-TRACK AUTHORITY

If fast-track authority is extended, there is a good chance that the Uruguay Round will be brought to a positive conclusion and that a constructive new North American agreement will be negotiated with Mexico and Canada. If it is not, the Uruguay Round will become a high-cost failure for which the world will blame the United States. The trilateral North American agreement will be written off as an untested, stillborn idea.

The reason for this is simple. No one will negotiate with American officials on trade unless those officials have the support of the Congress in the form of fast track negotiating authority.

The fast track provisions of the 1974 Trade Act, later incorporated by reference into the Omnibus Trade and Competitiveness Act of 1988, give us a solution to two problems: the domestic problem posed by our Constitutional arrangement and the international practical problem of encouraging other countries to negotiate in earnest on trade issues.

Constitutionally Congress is charged with regulating trade and the Executive Branch is charged with the conduct of international negotiations. The fast track provisions of the 1974 Trade Act are the only available technique for ensuring that this division of responsibility is a strength and not a weakness in America's dealings with the rest of the world. In essence, Section 151 of the 1974 Act is a promise from the House and Senate to the Executive Branch and to our trading partners. The promise is that whatever is negotiated will get a fair hearing in the U.S. Congress, specifically an up-or-down vote within a definite period. In the absence of such a promise, it is inconceivable that any of our trading partners would make meaningful concessions in either the Uruguay Round or the proposed North American free-trade area negotiations.

NAM TRADE PRIORITIES

NAM has talked a lot recently about American exports. In 1990, U.S. exports totalled more than $394 billion, and they are growing rapidly. For the moment, they are clearly the brightest spot on an otherwise bleak economic horizon, accounting for roughly 88 percent of U.S. GNP growth in 1990. They still do not pay the import bill -- $495 billion in 1990 -- but if current trends continue they will do so by the middle of this decade.

The United States is one of the world's largest exporters[1] and its largest importer. It makes sense for us to try to ensure that the conditions under which international trade is conducted are as supportive of our interests as they can be, both regionally and globally. The Administration needs negotiating authority even to pursue this goal, let alone achieve it.

U.S. trade is far more diverse than that of Canada, Mexico, and many other countries. We have a $190 billion trading relationship with the European Community; with Canada, $175 billion; with Japan, $138 billion; with Mexico, $59 billion; with Korea, $33 billion; and with the OPEC countries $41 billion. This diversity is one reason why a successful conclusion to the Uruguay Round should be this country's highest priority in international trade. The Round will affect the rules governing trade with <u>all</u> of our major trading partners, and it will influence the nature of the opportunities open to American firms in virtually every market in the world.

THE UNITED STATES AND MEXICO

In the balance of my testimony, Mr. Chairman, I should like to focus on the proposed North American free trade agreement, especially as it relates to Mexico.

U.S. trade in North America differs in some respects from our trade with other parts of the world. First, it is characterized by intra-company trade to a greater degree than elsewhere. Whether one focuses on the U.S.-Canada autopact or the maquiladora programs, what one sees is production sharing on a grand scale. To one degree or another, the economies of all three countries depend upon the same firms for their economic well being. And most of those firms are engaged in intensive,

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[1]We compete with Germany for this title, which is measured in dollars and which moves between the two countries in accordance with exchange rate fluctuations.

unremitting, global competition. It is in the interest of all three societies that those firms be as efficient as possible. The principal arguments for negotiating a North American free-trade agreement are that it could both enhance competitiveness and increase economic activity in all three countries.

A second characteristic of our trade with Mexico and Canada is that it is trade with neighbors. As such it carries with it political implications which, if not absent, are less prominent in other trading relationships. The French one hears in Vermont and Maine and the Spanish that is spoken in California and Texas give testimony to that.

It has been argued that we should not attempt a free-trade agreement with Mexico because the disparity in per capita income levels is too great ($1,600 in Mexico versus $19,800 in the United States)[2]. To the extent that an agreement should work to raise income levels in Mexico, the argument runs the other way. No one benefits from envious neighbors or impoverished customers. Our interests lie the opposite direction.

OPPORTUNITIES FOR THE UNITED STATES

Indeed, several major American corporations -- including Rubbermaid, Procter & Gamble, Chrysler and Eastman Kodak -- expect to see new export opportunities for their companies as a result of the combination of a North American free-trade agreement and an increase in the size and purchasing power of the Mexican middle class.

The U.S. economy is a much more open economy than the Mexican economy. Our tariffs are extremely low and our investment restrictions are more an economic footnote than a factor in economic decisions. We do not restrict trade with import licensing or with balance of trade requirements that limit the choices of firms located here. And we do not attempt to run two separate economies, a relatively efficient export economy and an inefficient domestic one.

To some extent, Mexico does all of these things, and in each area the changes we can expect from a well-negotiated free-trade agreement with Mexico should offer new opportunities to American firms.

Two facts need to be kept in mind. The first is that we have, and will continue to have, a large and growing economic relationship with Mexico. The second is that it is the Mexican economy which, in relative terms, is still closed.

GUIDELINES FOR AN AGREEMENT

None of the potential advantages of a U.S.-Mexico agreement are assured. In view of the persistence of the U.S. trade deficit ($1.8 billion of which was with Mexico in 1990) and the growing importance of trade to the U.S. economy, it is essential that U.S. negotiators proceed carefully and with a clear sense of U.S. economic goals. As supportive as we are of the President's intention to negotiate a new North American agreement, NAM would oppose any agreement with Mexico that did not clearly advance the economic interests of American manufacturers.

There are two obvious guidelines for these negotiations. First, the agreement we seek should be consistent with the General Agreement on Tariffs and Trade (GATT). Second, it should be a comprehensive agreement along the lines of the 1988 U.S.-Canada Free Trade Agreement. Certainly, there are areas, such as protection for intellectual property rights, where we might have

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[2]1988 figures.

done better in the earlier negotiation. In those areas, we should strive to improve on the first draft. On the other hand, where the U.S.-Canada agreement gives us good, strong guidance on the kinds of rules that can promote and facilitate free trade among neighboring countries, we should seek to replicate them in this next agreement.

Because Canada will be a party to these negotiations, I would like to set out and endorse what is informally referred to as "the pledge." This is that there will be no backsliding. In other words, neither Canada nor the United States will use these new negotiations to undercut the progress made in the 1988 agreement.

SIX OBJECTIVES

Beyond these two guidelines, we would urge the negotiators to pay particular attention to the following six objectives:

1. **Symmetrical tariff reductions.** With very few exceptions, U.S. tariffs are already very low, and presumably many more will go to zero in the next few years as a result of the new North American FTA. The discussion of tariffs is likely to be both intense and complex, and it may well be that the parties will decide upon some schedule of reductions which differs in important ways from the arrangement adopted in the agreement with Canada. The United States should not, however, reduce its tariffs in particular product categories any more rapidly than Mexico does. Both countries should achieve zero-tariffs in the same time frames on the same products.

2. **Investment.** Ultimately, we would like to see non-restrictive and non-distorting investment policies in Mexico as part of the agreement. The path to these objectives, however, is every bit as important as the objectives themselves. American companies in Mexico have already paid a high price for the "privilege" of operating in Mexico under mercantilistic rules. While those rules should be changed, they should be changed in a manner and in a time frame that minimizes economic harm to the interests of those American firms that have significant investments in Mexico.

3. **Intellectual Property.** As indicated earlier, the agreement should contain effective and enforceable provisions for the protection of intellectual property. It should not simply incorporate previously promised liberalization in one sector, while ignoring the larger issues associated with the protection of intellectual property rights.

4. **Benefits to North America.** The agreement should provide mechanisms for ensuring that the benefits of the agreement accrue primarily to the North American participants. We expect the negotiators to spend a lot of time on the rules of origin to be applied in an agreement with Mexico. We cannot afford to offer uncompensated free trade to manufacturers anywhere in the world simply because they set up assembly operations in Mexico.

5. **Safeguards.** The testimony this committee has already heard suggests that some individual sectors of the U.S. economy may be adversely impacted by import surges associated with the implementation of the agreement. The agreement needs to address this issue.

6. **Energy.** The agreement should contain clear language, as the U.S.-Canada agreement does, regarding each party's access to energy and energy markets. Because energy and petroleum feedstocks are so important to so many industries, failure to address this issue could easily turn a free-trade agreement into an inequitable adjunct of one party's industrial policy.

EXAMPLE AND SPECIAL ISSUES

Mr. Chairman, over 80 percent of the industrial output of the United States is represented by the members of the National Association of Manufacturers, and it is not our practice to focus on any one industry. The International Trade Commission's recent report on a North American free-trade agreement has helped us all understand better the likely impacts of the agreement on selected sectors.

I would suggest to you and to the U.S. negotiators, however, that we need to look very closely at the developments in the automotive sector. This sector accounts for the lion's share of U.S. trade with Mexico and U.S. investment in Mexico. Further, the challenge of these negotiations for the major American automobile companies highlights many of the most important issues in these negotiations. They have been disadvantaged by Mexican protectionism and ironically could be further harmed by a less than careful disestablishment of the current regime.

Similarly, it is the automobile companies, among others, who face the problem that their non-North American rivals could gain unintended advantages from a U.S.-Mexican agreement unless great care is taken in fashioning the rules of origin.

NAM will base its final judgement about a new agreement on the interests of <u>all</u> of our members. At this juncture, though, it is probably fair to use the rule of thumb that if the agreement doesn't work for the American automobile companies, it is probably not a good agreement.

WAGE RATE DISPARITIES

The issue of the wage rate disparities between the United States and Mexico is one that everyone concerned with these negotiations will be examining closely over the course of the next several months. Here, I would just make a few brief observations.

The first is that wages are far from the sole determinant when companies decide on plant locations. And indeed, over time they have become an important consideration in fewer cases as automation reduces the labor component of production. It is undeniably true that the wage disparities between the United States and Mexico are great, but they are not so great as they are often reported to be. A recent bulletin by the Bureau of Labor Statistics indicates, for example, that in 1989 hourly compensation for production workers in the United States averaged $14.31 and in Mexico $2.32.

Almost certainly the agreement would have the effect of narrowing this gap over time by raising wages in Mexico. We see no reason to believe that there would be an adverse impact on U.S. wages.

ENVIRONMENTAL ISSUES

Environmental questions have properly been raised in the discussion about the proposed agreement. NAM is not proposing that the North American Trade Agreement contain a chapter on environment, but we do think it important that the U.S.

government carefully analyze the likely trade consequences of the differences in the environmental protection regimes of the two countries.

On the question of how the agreement will affect the physical environment of the earth, we are not inclined to be pessimistic. New investment in Mexico associated with the agreement is likely to be state-of-the-art and less likely to harm the environment than existing facilities. Also, as Ambassador Hills has noted, a richer Mexico will be in a better position to enforce environmental laws which, I am told, are broadly similar to our own.

ONLY THE BEGINNING

Mr. Chairman, there are other considerations, which I have not discussed, that will also need to be addressed, such as a dispute settlement mechanism and possibly an exchange rate provision.

But this is only the beginning of the process. NAM will be reviewing these issues regularly over the next several months. We will advise this committee and the Administration of our views as they are developed. Even at this stage, however, I can say with some confidence that a North American Free-Trade Agreement, an agreement with Mexico, that clearly reflected the guidelines and objectives described above would almost certainly enjoy the enthusiastic support of the National Association of Manufacturers.

Thank you.

Chairman GIBBONS. Thank you.
Mr. Workman.

STATEMENT OF WILLARD A. WORKMAN, DIRECTOR FOR INTERNATIONAL POLICY AND PROGRAMS, U.S. CHAMBER OF COMMERCE

Mr. WORKMAN. Thank you, Mr. Chairman.

The U.S. Chamber believes that a comprehensive free trade agreement encompassing the United States, Canada, and Mexico would be beneficial to the broad base of its 180,000 members, ranging from most of the Fortune 500 companies, to tens of thousands of small- and medium-sized firms. I endorse the statements of my colleagues that have gone before me. At this point you have my statement. I would like to summarize what I think and focus on a couple of issues that seem to be emerging in this debate about a Mexico Free Trade Agreement, specifically the issue of lost jobs.

Some of our member companies have not experienced the supposed loss in U.S. jobs that some folks have contended have occurred. The chairman of our board, Mr. James Baker, who was the chairman and CEO of Arvin Industries, in testimony before the Senate, had these following statistics to demonstrate his company's experience in Mexico.

Arvin Industries which is an auto parts company and a Fortune 500 company, has three plants in Mexico. In 1989, those three plants were producing $23 million worth of product. And $1 million was imported from those plants into the United States. But to service those plants, Arvin exported $15 million to the three plants in Mexico. So you have a 15 to 1, if you will, trade surplus in our favor.

In addition, Arvin, in order to service those plants in Mexico, created 150 new United States jobs. In addition, there are also 480 jobs in Mexico. Our point is that this is not a zero sum game. We are talking about, if you will, a sum/sum game on both sides of the border. At the chamber we are continuing to research this issue and we will be happy to provide more examples as we go along.

In general, I think that if you look at what happened with exports to Mexico between 1989 and 1990, we are talking about approximately—if you use the International Trade Commission's rule of thumb that for every $1 billion in exports, 22,800 jobs are created—78,000 United States jobs were created as a result in the increase in new United States exports to Mexico between 1989 and 1990.

A second area that I would like to focus on is the contention that only the border States would benefit from a free trade agreement with Mexico. I brought with me, and I believe we provided to the subcommittee yesterday, a map which depicts United States exports by State to Mexico for 1989. I think it is very illustrative. If you look beyond Texas and Arkansas and you begin to look at places like New York, with $760 million in exports to Mexico in 1989; California is a big one, with $3.7 billion in exports; New Jersey, with $364 million; Florida, $336 million and so on. And that's without a free trade agreement. We would expect those bene-

fits to increase if we have a properly negotiated free trade agreement.

The U.S. Chamber board, last November, adopted a set of principles to guide the negotiations. They are attached to my testimony. I would like to point out one principle that we think is particularly important. We recognize that the liberalization process would create dislocations affecting labor, as well as various industries and localities. Therefore, the agreement should provide temporary safeguards and adjustment assistance. This would provide a mechanism for industries to seek temporary relief from sudden import surges resulting from the reduction of import barriers and provide assistance for businesses and workers that suffer displacement. Existing U.S. law providing such safeguards and assistance should be used to the maximum extent possible.

In conclusion, I would just like to point out that we are not buying into an agreement. It has not even been negotiated yet. We are strongly supporting the extension of fast-track authority because that's the way we can get the ball rolling.

Thank you, very much, Mr. Chairman.

[The prepared statement and an attachment follow:]

STATEMENT
on
NORTH AMERICAN FREE TRADE AGREEMENT NEGOTIATIONS
before the
SUBCOMMITTEE ON INTERNATIONAL TRADE
of the
HOUSE WAYS AND MEANS COMMITTEE
for the
U.S. CHAMBER OF COMMERCE
by
Willard A. Workman
February 28, 1991

On behalf of the U.S. Chamber of Commerce, I am pleased to testify in support of comprehensive negotiations with Mexico and Canada to establish a North American Free Trade Agreement (FTA). The Chamber believes that such an agreement would be beneficial to a broad base of its 180,000 members -- ranging from most of the Fortune 500 companies to tens of thousands of small and medium-sized firms.

U.S. TRADE WITH MEXICO

Trade between Mexico and the United States exceeded $59 billion in 1990. Today, Mexico is our third largest market -- behind Canada and Japan -- while the United States is Mexico's largest market and Mexico's largest foreign investor, with $12 billion in investments. The opportunity is at hand to increase these figures several fold within a few years, thereby expanding employment and domestic prosperity in both countries, and equipping the two nations to compete globally. The removal of tariff and non-tariff barriers to trade and investment under an FTA will increase business opportunities on both sides of the border.

However, we should be under no illusions that these negotiations will follow the Canadian-U.S. Free Trade Agreement model. The United States and Canada had extensively integrated markets and a considerable exchange of investment capital long before they embarked on free trade negotiations. This is not the case between the United States, Canada, and Mexico. Therefore, given this relative disparity between the three economies, the Chamber feels strongly that both governments should consult closely with their respective business communities as negotiations proceed.

GUIDING PRINCIPLES FOR FTA NEGOTIATIONS

In supporting FTA negotiations, the Chamber is not guaranteeing its ultimate support for the final negotiated agreement. We will only support a final agreement that is in the interest of the U.S. business community. Therefore, we have established certain principles that serve as criteria for an acceptable agreement. These are attached to my testimony, but I would like to summarize those principles:

- **The negotiations should be comprehensive.** In particular, we should negotiate agreements on tariffs, non-tariff barriers, agriculture, investment, services, intellectual property, and institutional mechanisms to improve bilateral economic relations.

  It has been our hope that these issues would be substantially advanced in the Uruguay Round of the GATT, thus facilitating the FTA negotiations. Should the current round not succeed, it should not jeopardize an FTA; it will only mean more work for our negotiators to conclude an FTA.

  However, we do not believe the FTA negotiations should be made the catch-all for every economic and non-economic issue between our two countries, as some have suggested. Other issues, such as environmental degradation, immigration, narcotics, and labor conditions, while important in our overall relationship are already being addressed through mechanisms more appropriate than would be the FTA negotiations.

- The comprehensive nature of the FTA negotiations could present economic and political challenges for both governments. The negotiations should, therefore, also address appropriate transition periods based on **a program of staged, full-phased elimination of tariffs and non-tariff barriers consistent with GATT obligations,** meaning that reductions will be phased in over an agreed-upon period of time, and that all sectors of the economy can be covered in the agreement.

- We recognize that the liberalization process could create dislocations affecting labor as well as various industries and localities. Therefore the agreement should provide **temporary safeguards and adjustment assistance.** This would provide a mechanism for industries to seek temporary relief from sudden import surges resulting from the reduction of import barriers, and provide assistance for businesses and workers that suffer displacement. Existing U.S. law providing such safeguards and assistance should be used to the maximum extent possible. The agreement should also provide **effective dispute-settlement procedures and periodic reviews.**

- A Free Trade Agreement should establish clear **rules of origin**, which will provide verification that products are actually made or originate in the U.S. or Mexico. This will prevent third countries from acting as "free riders" in the agreement, thus ensuring that trade benefits accrue to all three countries.

We feel that these principles lay the groundwork for a successful, mutually beneficial agreement. Of course, it is also essential that Congress allow the President to negotiate under fast-track authority. Without this authority it would be difficult, if not impossible, for the USTR to conclude a successful agreement, because the agreement would be subject to Congressional alterations which may be unacceptable to the Mexican government.

FAST TRACK AUTHORITY

Many argue that if fast-track authority is granted, the Administration will have *carte blanche* to include or exclude anything it wants in the agreement. This is not the case. Despite its name, the fast-track process is not really all that fast. The notification, consultation, and approval processes provided in the fast-track mechanism give Congress ample opportunity to influence the outcome of the negotiations. We also believe that the Administration should and will consult closely with U.S. business, since an agreement not acceptable to the broad spectrum of American business is doomed to failure.

IMPLICATIONS FOR THE UNITED STATES

Some have expressed concern that an FTA will result in a transfer of U.S. jobs across the border as American firms take advantage of Mexico's lower wage levels. As many others have said before me, if wage costs were the principal determinant of business success, then Haiti would be an industrial powerhouse. Other factors, such as the skill and education level of the workers, their productivity, the available infrastructure, ease of getting inputs to a plant site, and the ease of operating in a different culture are also considered when deciding on a plant location. It is true that some American companies have found it necessary to move part of their operations to Mexico in order to remain competitive with imports in the U.S. market. But in many cases these companies must choose between moving a portion of their operations to Mexico or to other countries where wage rates are even lower. It is to the advantage of the U.S. economy that these jobs are given to Mexicans, who are large consumers of U.S.-produced goods. This way, the largest possible number of jobs are maintained in the U.S., while at the same time new markets are created for U.S. exports, thus producing employment opportunities here at home.

Others have also argued that Mexican wage levels will be kept artificially low to attract foreign investment, thus depressing U.S. wage levels so that they are competitive with Mexico's. The experience of other countries has shown that this should not be the case. When Spain was integrated into the European Community, there were similar concerns that the wage levels of other EC countries would suffer as a result. Not only has this not occurred, but wage levels in Spain rose 8.3% in 1987, 6.5% in 1988, and they continue to rise. At the same time, wage rates have also risen in Germany, England and France. Moreover, development patterns in the emerging Asian newly-industrialized countries have shown that when low-wage countries expand their export markets, new jobs are created and

wages increase. Korea is a good example. It was once one of the lowest-wage countries in Asia. Since Korean exports started to boom in the mid-1980s, wages increased 19.6% in 1988, 25% in 1989, by 18% in 1990. Finally, Mexican officials have said repeatedly that they do not seek sustained export success through low wages. Rather, the result of this agreement should be to increase the standard of living in all three countries. Creating new employment opportunities in Mexico -- a country where 15% of every consumer dollar is spent on U.S.-produced goods -- will help the U.S. increase its exports in consumer and capital goods.

The fact of the matter is that jobs in America depend in considerable degree on jobs in Mexico; we are increasingly interdependent. The key to maintaining high-wage jobs in the U.S. is to maintain technological leadership, develop a well-educated work force, and invest internationally to remain competitive. Workers earning one dollar per hour in mexico will not replace U.S. workers making eight dollars per hour. Mexican labor will replace Indonesian, Malaysian, Thai, and Korean labor, as investors learn that Mexican labor is equal in quality, productivity, and other respects. Having Mexico as a full partner in this region will benefit the United States.

HEMISPHERIC IMPLICATIONS

By including Canada in these free trade negotiations, we will a North American economic unit with a combined output of $6 trillion, which is 25% greater than the European Community's output of $4.8 trillion. Such an arrangement should grant the U.S., Mexico and Canada -- individually and collectively -- increased influence for obtaining greater access to other markets. This will also move us closer to President Bush's objective of a free trade zone extending from "Anchorage to Tierra del Fuego" -- a goal he set when he announced his "Enterprise for the Americas" Initiative last June.

ENTERPRISE FOR THE AMERICAS

This Free Trade Agreement is important for the success of the President's Enterprise for the Americas Initiative -- a new foreign policy for Latin America and the Caribbean. Rather than "throwing money" at the region's problems -- the historic U.S. response to difficulties faced by developing countries -- the President has proposed a mix of investment, trade, and debt relief incentives to encourage countries to adopt free market-oriented policies that can bring about long-term economic growth and political stability. Since this will not only benefit Latin America, but also expand U.S. export markets and investment opportunities, the Chamber supports this Initiative. A successfully concluded FTA with Mexico will serve as a model for the hemispheric free trade zone proposed in the President's Initiative.

CONCLUSION

Mr. Chairman, it is time for the Congress to look beyond the short term, and to do something that will help the competitive position of the U.S. far into the future. Clearly, this agreement will help Mexico and Canada as well. More importantly however, this agreement can be beneficial to small and medium American business as well as larger U.S. firms. If the negotiations follow the principles we have set forth, we feel very strongly that the Chamber will be able to support the final agreement in the interest of the broad spectrum of our members.

ATTACHMENT

The U.S. Chamber of Commerce believes that a comprehensive FTA would benefit a broad base of our 180,000 members -- most of whom are small and medium-sized firms.

It is doubtful that these negotiations will result in a simple copy of the Canadian-U.S. Free Trade Agreement. The U.S. and Canada had extensively integrated markets and exchange of investment long before our FTA. This is not so between the U.S. and Mexico. Therefore, we feel that all three governments should consult closely with their business communities as negotiations proceed.

In supporting negotiations, the Chamber does not guarantee ultimate support for the FTA. We will only support an agreement that is in the interest of the entire U.S. business community. Therefore, we established the following principles that serve as criteria for an acceptable agreement:

- Be comprehensive, with a view to going beyond the Uruguay Round agreements;
- Cover tariffs, non-tariff barriers (NTBs), agriculture, investment, services, and intellectual property protection;
- Ensure that trade benefits accrue to both the U.S. and Mexico. Specifically, to avoid third-country components from being processed in Mexico, stamped "Made in Mexico", and exported to the U.S., rules of origin must be established;
- Allow temporary safeguards and measures to deal with serious injury to industries, labor and/or localities resulting from the liberalization process;
- Include a well-defined process for removing technical and administrative barriers to trade and investment that are identified during the operation of the FTA;
- Establish a program of staged, full-phased reductions of tariffs and NTBs, consistent with GATT obligations;
- Provide effective dispute settlement procedures;
- Establish periodic reviews of the FTA; and,
- Lay the groundwork for a single market encompassing the U.S., Mexico and Canada, which individually and collectively, will have more influence for obtaining greater access to other markets in the world.

Chairman GIBBONS. Thank you.
Mr. Cuza.

STATEMENT OF FERMIN CUZA, CHAIRMAN, UNITED STATES-MEXICO FREE TRADE COMMITTEE, AMERICAN ASSOCIATION OF EXPORTERS & IMPORTERS, AND ASSISTANT TREASURER, FOREIGN TRADE SERVICES, MATTEL, INC., ACCOMPANIED BY STEVEN KERSNER, PARTNER, BROWNSTEIN, ZEIDMAN, & SCHOMER

Mr. CUZA. Good morning, Mr. Chairman.

My name is Fermin Cuza and I am the assistant treasurer for foreign services at Mattel. I am also the chairman of the United States-Mexico Free Trade Committee for the American Association of Exporters and Importers AAEI. With me here today, is Steven P. Kersner, a partner in the law firm of Brownstein, Zeidman, & Schomer, and also the vice chairman of AAEI's United States-Mexico Free Trade Committee.

AAEI is a national organization with over 1,000 U.S. companies, covering every aspect of international trade. In April 1990, the association formed a United States-Mexico Free Trade Committee to promote the negotiation of a FTA between the United States and Mexico. Today, over 50 U.S. companies participate on that committee.

Mattel is the second largest toy company in the United States. Our worldwide sales exceed $1 billion annually and from our headquarters in El Segundo, CA, we supervise approximately 15,000 employees worldwide and sell our products in more than 100 countries.

AAEI fully supports the negotiation of a United States-Mexico Free Trade Agreement or a North American free trade area with Canada as a full partner in the negotiations. The FTA would allow each country to maximize its own competitive advantages, while sharing in those of its neighbors. Further, an FTA between Mexico, the United States, and Canada can be the first step toward a mutually beneficial hemispheric free trade zone.

AAEI believes that the time for a United States-Mexico Free Trade Agreement has arrived. The reforms undertaken by Mexico since its succession to the GATT in 1986 have led to a tremendous expansion of trade with the United States. It is important to note that this increase in trade has helped both countries. For example, United States exports to Mexico increased by 21 percent during 1988 and 1989, while imports from Mexico grew at the slightly lower rate of 17 percent during the same period. Now much has been said about the divergent wage rates between the United States and Mexico, however, the development of the nonindustrialized nations of East Asia and the integration of Spain and Portugal into the EC demonstrated that industry does not migrate to the extent that differences in wages might suggest.

AAEI believes that if borders open up to competitive foreign products and investments, Mexican consumers will see their purchasing power increase as prices come down, and their wages go up as their jobs shift to higher value-added production.

Regarding fast-track authority, AAEI is concerned that without fast-track consideration for the FTA there may be no agreement. Given the complexity of a comprehensive free trade agreement, there is a need to avoid having the agreement constructed and amended after it is negotiated, or to tie negotiators' hands during the tough bargaining ahead. Therefore, our association strongly believes that the benefits of free trade would be best assured if the negotiations proceed under the fast-track authority.

The specific objectives of trilateral FTA negotiations should be to eliminate trade impediments and foster the expansion of trade in goods and services. Therefore, it is paramount that the negotiations be limited to direct trade and investment issues.

Other issues of importance, such as environmental concerns, immigration, and drug trafficking should be resolved through separate negotiations with Mexico, using existing binational channels of communication.

Concerning the scope and content of the free trade agreement, AAEI believes that the United States-Canada free trade area can provide a useful model for the FTA. In addition, to improved protection of intellectual property rights and the establishment of fair and expeditious dispute settlement mechanisms, AAEI feels strongly that three technical trade areas need to be addressed substantially in the FTA negotiations.

First and foremost, preferential tariff provisions now in effect, such as GSP and the maquiladora in-bond program in Mexico should be preserved during the tariff phaseout, and not replaced with any less favorable terms. Additionally, new tariff reductions need not be symmetrical for all sectors. Instead, countries should reduce tariffs based on their comparative advantage, while their import-sensitive industries should receive suitable transition periods, leading to eventual elimination of all tariffs. AAEI supports the institution of a zero tariff program, as with the Canadian FTA.

Second, passenger and commercial truck traffic through ports of entry along the United States-Mexico border is among the most congested border region in the world. The prospect of a free-trade agreement between these nations means an even greater increase in the volume of goods and persons transiting the border. Therefore, one of the most important requirements of the FTA should be to ensure the facilitation of rapid passage through border ports of the expected increased flow of goods.

Currently, existing border regulations and practices act as nontariff barriers and increase the total cost for U.S. businesses. Despite ongoing efforts to improve the infrastructure, the following measures are vital to facilitate increased trade.

One, extended hours of service for Customs personnel to service commercial shipments arriving at border crossings should be established to reflect the needs of the trade. Where justified, this should include 24-hour service.

Second, United States, Mexican, and Canadian Customs documents and requirements must be harmonized.

Third, procedures for joint inspections should be established to eliminate the off-loading of trucks twice by separate Customs inspections by Mexican and United States Customs officials.

Fourth, border crossing facilities in the United States should be placed under the control of a single border agency.

Finally, AAEI believes that the rules of origin should rectify and overcome several problems encountered under the United States-Canada rules.

In summary, AAEI believes that the elimination of trade barriers between the United States and Mexico will enhance the competitiveness of United States firms, lower the cost for United States and Mexican consumers of imported products, and help strengthen Mexico's commitment to continue opening and modernizing its economy.

Clearly, these benefits would also serve to promote political stability in Mexico and foster a spirit of cooperation that will extend to nontrade areas, such as the environment, immigration, and illegal drugs.

Thank you, Mr. Chairman.

Mr. Kersner and I would be happy to answer any questions.

[The prepared statement follows:]

BEFORE THE UNITED STATES HOUSE WAYS AND MEANS COMMITTEE
SUBCOMMITTEE ON TRADE
WRITTEN TESTIMONY OF FERMIN CUZA, MATTEL, INC.
ON BEHALF OF
THE AMERICAN ASSOCIATION OF EXPORTERS AND IMPORTERS

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Good morning. My name is Fermin Cuza, and I am the Assistant Treasurer for Foreign Trade Services of Mattel, Inc. in El Segundo, California. I am also Chairman of the U.S.- Mexico Free Trade Committee for the American Association of Exporters and Importers (AAEI). I am accompanied here today by Steven P. Kersner, a partner in the law firm of Brownstein Zeidman and Schomer, and also the Vice Chairman of the AAEI'S U.S.-Mexico Free Trade Committee.

The AAEI is a national organization with over 1,100 U.S. companies involved in every aspect of international trade. In April, 1990, the Association formed a committee to monitor and advocate the negotiation of a free trade agreement between the United States and Mexico. Currently, over 50 U.S. companies are participating in AAEI's U.S.- Mexico Free Trade Committee. The Committee represents the interests of firms conducting trade in a broad range of goods and services with Mexico.

Mattel, Inc. is the second largest toy company in the United States. Our worldwide sales exceed one billion dollars annually and from our headquarters in El Segundo, CA, we supervise approximately 15,000 people worldwide. Our products are sold in more than 100 nations throughout the world.

The AAEI fully supports the negotiation of a U.S.- Mexico Free Trade Agreement (FTA) or a North American Free Trade Agreement (NAFTA) with Canada as a full partner in the negotiations. The NAFTA provides an opportunity to create an economic alliance of one of the largest marketplaces in the world. The NAFTA would allow each country to maximize its own competitive advantages and to share in those of its neighbors. An FTA between Mexico, the U.S. and Canada is the first step towards a mutually beneficial hemispheric free trade zone.

Economic Overview of U.S. - Mexico Trade

The AAEI believes that the time for a U.S.-Mexico Free Trade Agreement has arrived. Today, Mexico is the United States' third largest trading partner, and the United States is Mexico's largest trading partner. Bilateral trade between the two countries is expected to reach $60 billion this year.

The reforms undertaken by Mexico since its succession to the GATT on August 24, 1986 have led to a tremendous expansion of trade with the United States. Over the past four years, bilateral trade between Mexico and the United States has increased by 75%. It is important to note that this increase in trade helped both countries. For example, U.S. exports to Mexico increased by 21% during 1988 and 1989, while imports from Mexico grew at a lower rate of 17% during the same period.

The reforms instituted by the Mexican government have also led to a tremendous expansion of foreign investment in Mexico. U.S. foreign investment in Mexico now amounts to $12 billion, representing 60% of the value of total foreign investment in that country. The changes which have occurred in Mexico over the past four years have opened its market tremendously, with U.S. exporters being a primary beneficiary of the trade and investment liberalization. A free trade agreement will build on these growing market opportunities.

Benefits Of An FTA To The U.S. Economy

While much has been said, and more is likely to be heard about the divergent wage rates between the U.S. and Mexico, the impact of an FTA on Mexican wage rates offers one of the greatest potential benefits to the U.S. economy. Over and over experience has shown in such examples as the development of the East Asian NICs and the integration of Spain and Portugal into the EC, that industry does not migrate to the extent which wage differentials might suggest, and that liberalization of trade improves the standard of living. As borders open to competitive foreign products and investment, Mexican consumers will increase their purchasing power as prices come down and shifts to higher value-added production increase their wage rates. Clearly, U.S. exporters of both industrial and consumer goods will be prime beneficiaries of a more developed and prosperous Mexico.

AAEI nevertheless acknowledges the conclusions of a recent ITC report that while "an FTA with Mexico will benefit the U.S. economy overall ... there are likely to be some shifts in production." AAEI strongly believes, however, that phased-in liberalization under an FTA would provide the U.S. economy and labor force the non-disruptive opportunity to adjust to the changing trade regime. For AAEI it is not so much a question of whether those jobs where U.S. production is not commercially viable remain here or whether they move to Mexico. Rather, AAEI believes the question is whether a portion of jobs move to Mexico under an FTA or whether U.S. firms completely move their operations offshore to other non-contiguous countries.

Thus an FTA might actually save U.S. jobs that might otherwise be lost to offshore production. Furthermore, an increase in production in Mexico will, in the longer term, raise the standard of living and purchasing power of the Mexican consumer, leading to increased demand for competitive U.S. exports, and creating U.S. jobs.

For instance, the U.S. toy industry's success story is underscored by the fact that U.S. toy companies today sell almost 40% of their products in foreign markets, while they keep the majority of their assets in the United States. Although production jobs in the U.S. have dwindled, the jobs that support U.S. imports and marketing of our products overseas have increased. For example, the remaining U.S. jobs in our industry are linked to toy companies' international operations and include such activities as design and development, packaging, marketing, sales, finance, accounting, warehousing, distribution, cargo transportation and handling, brokerage and production scheduling. Mattel toys imported from Mexico do not compete in the U.S. market with U.S.-made toys but rather with other imports, primarily from China, Hong Kong, Taiwan, Macau, Thailand and Korea.

Fast Track Negotiating Authority - In the U.S. Economic Interest

While U.S. administration consultations with Congress are essential during the formation of trade agreements, the necessity of "fast track" procedures has long been recognized since its creation under the Trade Act of 1974. It is widely acknowledged that without "fast track" consideration for the free trade agreement with Mexico, there can be no agreement. Indeed, the negotiation of any comprehensive FTA is necessarily complex, because it will cover not only tariff reductions, but also the elimination of non-tariff barriers, and such other trade and customs matters such as country of origin marking, duty drawback, escape clause procedures and dispute settlement mechanisms with regard to antidumping and countervailing duty cases. Additionally, matters such as foreign investment, financial services, border facilitation and intellectual property rights need to be addressed.

Fast Track Negotiating Authority (Con't.)

Given the complexity of a comprehensive Free Trade Agreement, there is a need to avoid having the agreement reconstructed and amended by the U.S. Congress. A revised agreement would have to be presented to Mexico and Canada for their re-consideration. These impediments would surely defeat the proposed FTA in the end, and in the meantime the threat of not having fast-track authority could tie negotiators hands during the tough bargaining ahead. Moreover, Congressional authority to accept or reject any trade agreement as a whole is in no way weakened by fast track procedures. Certainly, the benefits of free trade are in the economic interest of the U.S., and those benefits are best assured if the negotiations proceed under the fast track authority.

Specific Objectives of the Free Trade Agreement

AAEI believes the specific objectives of the trilateral FTA negotiations should be to eliminate impediments to and foster the expansion of trade in goods and services among the countries. Therefore, it is paramount that the negotiations be limited to direct trade and investment issues. Other issues of importance, such as environmental concerns, immigration, and drug trafficking should be and are being addressed in other fora. Most important, the potential agreement should not be exclusionary so as to prejudice trade with other nations of the world. For this reason, the following must be ensured:

1. Any agreement should be consistent with the principles of and U.S. commitments under the GATT, such as non-discrimination and transparency.

2. Any agreement should provide a structure for the future adherence of other Western Hemisphere countries, as envisioned in the "Enterprise for the Americas Initiative," with all signatories receiving equal, unrestricted access to each others' markets.

Scope and Content of the Free Trade Agreement

The U.S. - Canada Free Trade Agreement (CFTA) will provide a useful model for the NAFTA. In addition to improved protection of intellectual property rights, and the establishment of fair and expeditious dispute settlement mechanisms similar to the U.S.- Canada Binational Panel, AAEI feels strongly that three technical trade issues need to be addressed substantially in the FTA negotiations: tariff reductions, border facilitation and rules of origin.

Tariff Elimination

First and foremost, preferential tariff provisions now in effect, such as GSP and the Maquiladora program, should be preserved during the tariff phase-out, and not replaced with any less favorable terms. Where differences exist in treatment by the U.S. and Canada, the more liberal program should be the model. Additionally, tariff reductions need not be symmetrical on a sectoral basis. Countries should reduce tariffs based on their comparative advantage, while their import sensitive industries should receive suitable transition periods, leading to eventual elimination of all tariffs. AAEI supports the institution of a "zero tariff" program, as with the CFTA. AAEI further suggests that given Mexico's maximum import duty rate of 20%, which is well below its tariff reduction obligations under the GATT, the U.S. should reduce its tariffs which are currently 20% or more to a comparable level prior to implementation of the FTA or the accelerated phase-out.

Border Facilitation

Passenger and commercial truck traffic through ports of entry along the U.S. - Mexico border is among the most congested of any border region in the world. The prospect of a free trade agreement between these nations means an even greater increase in the volume of goods and persons transiting the border. One of the most important requirements of the FTA will be to ensure the facilitation of rapid passage through ports of entry of the increased flow of goods. Currently, existing border regulations and practices act as non-tariff barriers and increase the total cost for U.S. businesses. Despite recent measures to expand the infrastructure, the following measures are vital to facilitate increased trade:

1. Extended hours of service for Customs personnel to service commercial shipments arriving at Border Crossings should be established to reflect the needs of the trade. Where justified, this should include 24 hour service.

2. U.S., Mexican and Canadian Customs documents and requirements must be harmonized.

3. Procedures for Joint Inspection should be established to eliminate off loading trucks twice for separate Customs inspections by Mexican and U.S. Customs officials.

4. Border crossing facilities in the U.S. should be placed under the control of a single agency.

Rules of Origin

While the U.S. - Canada FTA (CFTA) does serve as a useful starting point in many areas, AAEI believes that the NAFTA rules of origin should rectify and overcome several problems encountered under the U.S.-Canada rules. Many companies feel the requirements diminish the potential benefits offered under the CFTA. A U.S.- Mexico rule should encompass the following improvements to the CFTA rules of origin:

1. The largest problem with the CFTA is the determination of origin where there is no change in tariff classification and a value added requirement becomes necessary. The extensive documentation involved often discourages business from taking advantage of the program. While the solution is unclear, the problem should be addressed in the upcoming negotiations.

2. The definition in the CFTA of "goods wholly obtained or produced in the territory of Canada and/or the U.S." should include a 10% de minimis allowance for non-originating components.

3. Harmonization is needed between the CFTA definition of "direct shipment" and the GSP definition. The GSP rule allows a resale to a third country. This rule is the preferred rule and should be adopted for both the CFTA and NAFTA.

Lastly, AAEI feels the trade communities in all three countries would be best served if a dispute settlement mechanism were established at the Customs level to address disputes involving classification, binding rulings, rules of origin and treatment of goods.

Conclusion

In summary, AAEI believes that the elimination of trade barriers between the U.S. and Mexico will enhance the competitiveness of U.S. firms, allowing for expanded penetration of U.S.-based companies in the global marketplace, as well as lower the cost for U.S. and Mexican consumers of imported products. Further, the FTA can help strengthen Mexico's commitment to continue opening and modernizing its economy. This in turn will benefit U.S. exporters, lead to new manufacturing and supply relationships and help improve Mexico's economy. Clearly, these benefits would also serve to promote political stability in Mexico and foster a spirit of cooperation that will extend to non-trade areas such as the environment, immigration and illegal drugs.

Chairman GIBBONS. Mr. Workman, Mr. Kittredge, and Mr. Baroody, it seems to me that the biggest protester that we have to the fast-track procedure, which all of you say is essential to the culmination of these agreements, is the AFL–CIO. Yet, it seems to me that the bargaining technique that the AFL–CIO have used for 90 years is essentially like the fast-track procedure, where they negotiate an agreement and then take it back to their members for ratification or rejection.

Am I wrong in my perception of their process?

Mr. BAROODY. I certainly would not argue with your analysis. It appears to me that's exactly what they do.

Chairman GIBBONS. Well, then in effect, they are saying the procedure that they have been using for 90 years is not a fair procedure, is that a fair conclusion?

Mr. BAROODY. That's a logical conclusion. I would agree with you, sir.

Chairman GIBBONS. It just struck me. It is so obvious that I thought I had made a mistake.

Mr. PEASE. Would the gentleman yield?

Chairman GIBBONS. Yes, sir, I would be glad to.

Mr. PEASE. Mr. Chairman, as a counsel for the other side, I just want to object. The learned counsel is leading the witness. [Laughter.]

Chairman GIBBONS. Just trying to save time.

All right, Mr. Crane.

Mr. CRANE. Thank you, Mr. Chairman, and I want to applaud the witnesses today for their testimony. Several previous witnesses, though, have made the point that an FTA with Mexico would enable our trade competitors in Europe and the Far East to set up nearby bases of production in order to expand their penetration of our market, here, in the United States. Could any of you respond to that?

Mr. KITTREDGE. Well, I think in our testimony we mention that that is a concern and a concern to a number of our companies, but with proper rules of origin in the agreement, we think that that can be controlled and that can be handled. But it is a concern.

Mr. CRANE. Second, the recent ITC study on the likely impact of a trilateral agreement did not analyze the effects of creating a regional trading bloc on other nonmember countries. Do you think that a trilateral agreement would affect our trade relations with any other countries?

Mr. WORKMAN. It shouldn't necessarily. We already have bilateral agreements, FTA's, with Canada and with Israel. And that has not affected our ability to work through the GATT or to work directly with Japan or the European Community.

Mr. KITTREDGE. I think you are apt to see that problem if the GATT is not successful, than the other way around.

Mr. CRANE. Well, that's a big concern. In fact, the biggest worry right now is the linkage of the resolution of that Uruguay round and trying to get the extension for fast-track authority with the free trade agreement. We are getting a kind of coalition of interests that for different reasons, in many instances, have concluded that extension of fast-track authority is not in our best interest. We have had testimony before.

One other area where we have heard a lot of testimony on this free trade agreement is that there either are not laws protecting workers down in Mexico and the environment, or if they have them, they are not being enforced, and that this would put us at a competitive disadvantage. Could you respond to that one?

Mr. WORKMAN. Well, in Mexico, they have recently put into place a new environmental omnibus law, which is quite comprehensive, and, as a matter of fact, is modeled after United States law.

They are, for example, requiring catalytic converters on all of their cars from 1991 forward. They are moving to require the use of unleaded gasoline, which they have not used in the past. There are problems on the enforcement side, and that is an issue that the United States, as I understand it, has been dealing with the Mexicans on a bilateral basis for about 2 years. There is this bilateral commission on the environment. So that's—sure, those are concerns.

In terms of the lax environmental enforcement in Mexico as a reason for United States companies to go to Mexico, I would be hard pressed to find any United States company that would make that statement. There are a variety of very complicated economic factors for why you invest and why you set up a plant in Mexico. Labor is part of it; the legal and regulatory environment is a very important part of it, but that encompasses things beyond the environment. So, you know, I don't think that you can just point and say, well, we are going to move down to Mexico so that we can pollute.

The Mexicans have a law where foreign companies invested in Mexico have to dispose of their own waste in their own countries. So, I think that's a bogus argument. There are problems and there are mechanisms in place to address a lot of those concerns.

Mr. KERSNER. If I could add one point to that, Congressman, I participated personally, in a multiyear congressional investigation and International Trade Commission investigation concerning the Mexican agricultural industry in which a lot of the claims which you allude to were made—poor health standards for workers, improper use of pesticides, and similar environmental concerns. And at the conclusion of those investigations, the International Trade Commission found that there were no lax Mexican standards being employed; there were no problems which were any different than were being evidenced in the United States, or elsewhere.

I give you this example by way of suggestion that I think that part of what you allude to is more smoke screen as to why we shouldn't negotiate with Mexico because of differences in the economy and culture, rather than any substantive differences in terms of the concerns for workers in Mexico as there are concerns here, in the United States.

As one final point, you know, much of the investment in Mexico, in terms of industry and even in the agricultural industry, is by large United States companies, Fortune 500-type of companies. And the types of operations, in my experience, that they set up in Mexico are parallel to the manufacturing operations that they set up in the United States in terms of health and environmental standards.

Mr. CRANE. Thank you. Some of the line of argumentation suggests that corporate heads live on another planet so that they are unconcerned about the environment on this one. Simultaneously that there is something efficient about putting workers at risk in your own plant. I mean the retraining costs, amongst other things, would dictate, out of sheer efficiency if nothing else, that you try and take care of your workers properly.

But we're getting a wide variety of argumentation presented to the committee, and, in fact, one of the more interesting ones was from a group identifying itself as a consumer group and virtually the whole testimony they presented was anticonsumer. I am not sure where some of these folks are coming from. But I appreciate your testimony before the committee, and hope we will see a successful completion of this agreement.

Chairman GIBBONS. Mr. Jenkins.

Mr. JENKINS. Thank you, Mr. Chairman.

I only have one or two questions. Following up on Mr. Crane's line of questions, I am not absolutely certain what you meant when you said that waste products and so forth had to be, under Mexican law, taken back to the country where the industry originated? I did not understand that.

Mr. WORKMAN. There's a provision in the current Mexican environmental law that requires hazardous waste that a company would generate in its production activities in Mexico, to be disposed of consistent with the protections in the originating country. So, in effect, United States environmental hazardous waste disposal standards are being implemented by United States companies in Mexico.

Mr. JENKINS. The same standards as far as hazardous materials, is that correct?

Mr. WORKMAN. That's correct.

Mr. JENKINS. OK.

Mr. WORKMAN. Again, they have used our environmental laws as the models for their omnibus law, so that it you will see—except that it is in Spanish—you will see very similar concerns and phrasings and even provisions of law.

Mr. JENKINS. So you don't see any real savings for a company to locate in Mexico vis-a-vis the United States mainland, from a environmental perspective?

Mr. WORKMAN. Not necessarily. That has not been the experience of the companies that we have talked to in our membership.

Another point, following up on Congressman Crane's question about workers, there is a—I don't think Ford would have a problem with my referring to them—but they had, Ford operations in Mexico, had a problem initially with turnover. The Mexican workers that they invested about 3 months of training time on were only staying in their plants for about, on average, 15 months. That's a tremendous cost to their company.

The Ford-Mexican operations compare with their operations in the United Kingdom and in the United States in terms of quality of product output. The reason why the workers were leaving was the infrastructure around the plant was so poor that they had very poor housing and there were no schools for the children. So they were almost migrant workers within Mexico. So they would work

for 15 months and then leave and go back to wherever they came from within Mexico and where their families were. So, Ford has initiated a program where they are building housing for their workers and providing the financing for it, and they are interest-free loans that are usually paid off in about 4 to 5 years. So the United States companies do have a commitment to the welfare of their workers in Mexico. The companies that we are experienced with are not going down there just to rip off and get some low-paid Mexican workers. That is not the idea.

In today's international economy, those companies in Mexico are looking to export to the world, so that they have to meet a world standard, and it is in their economic interest to have a good, well-trained, high-skilled work force in Mexico, as well as in the United States.

Mr. JENKINS. That raises an interesting point. I'm curious, if they are not going there for wage considerations, why would they be able to provide homes and interest-free loans to their workers in Mexico, and not here?

Mr. WORKMAN. Well, there is. That is part of the investment that they are making in Mexico that is balanced out by the fact that the wages are lower. So it is all part of the calculation of the cost of manufacturing a product. Whereas, the jobs that we have in the United States are the high-skilled, high-wage jobs. So——

Mr. JENKINS. The bottom line is that they go there because wages are cheaper, isn't that correct? I mean there is nothing wrong with that, but——

Mr. WORKMAN. That's one element. I'm not going to deny that. But that is not necessarily the determining element. For example, I was talking to one of our companies that is a semiconductor manufacturer. Now, they are invested in Mexico, but it had nothing to do with the low wages. Their manufacturing process is highly automated. And they require very high-skill and consequently high-wage, high-value-added workers.

There were other economic factors that determined their setting up operations in Mexico, including access to the Mexican market, which is fairly significant, and from Mexico, access to all of Latin America.

There are other economic reasons for why you would set up operations in Mexico, it is not just simply low wages.

Mr. JENKINS. I am not sure that the reasons for going there, even if one of them is low wages, are not necessarily all bad. I am not making that contention. But I do not believe that Ford, or anyone else, would not locate in Mexico to make products for shipment back into this country and be able to provide interest-free loans to their employers if it were not for the fact that economic considerations, that is, low wages, are so much more favorable in Mexico. I don't see why, otherwise, they would do it.

Now, I grant you if the reason for locating in Mexico is to manufacture a product to be sold primarily in Mexico to develop access to the Mexican market, I understand that.

Mr. WORKMAN. Well, if I could go back to the example of our chairman of the board, Mr. Baker of Arvin Industries—I think Arvin Industries has 23 plants. They have 12 outside of this country and they have 3 in Mexico. In 1989, the three plants in Mexico

produced 24 million dollars' worth of product— $23 million was for the Mexican market and $1 million came back to the United States.

To service those plants in Mexico, Arvin Industries exported $15 million to the three plants in Mexico. So, if you are talking about a trade balance between the United States and Mexico, in the case of Arvin Industries, it is $15 million in exports and an additional 150 new United States jobs, versus $1 million of imports. That is just between its plants. That's internal to the company.

So, you know, I would just like to emphasize that this is a different era. We are not talking about just importing into the United States. We're talking about meeting world standards and trying to compete with very stiff international competition. The Mexican market has been closed. It is only since Mexico has acceded to the GATT that they have begun to open up. And in order to penetrate the Mexican market, in the past, United States companies had to locate, they had to meet certain export performance requirements.

To President Salinas' credit, he has decided that open trade and free trade is a better way to to than protectionism.

Mr. JENKINS. Thank you, Mr. Workman.

Thank you, Mr. Chairman.

Chairman GIBBONS. Mr. Schulze.

Mr. SCHULZE. Thank you, Mr. Chairman.

I would like to thank the panel for their very interesting and well-presented testimony. I would like to ask you whether you share my concern or have given thought to the dispute settlement procedures and/or processes?

I have long advocated a three-tiered dispute settlement mechanism, where the majority of disputes would be settled, perhaps 70 or 80 percent, at a rather broad low-level panel. Another 10 to 15 percent would be passed on, if they could not be solved, they would be passed on to the next higher panel to be solved. The last 5 percent or so would be settled at the policy level where there would be broad, far-reaching policy decisions, and/or impact on our laws, or other countries' trade laws involved with those decisions.

And I think dispute mechanism is one of the keys to any kind of a cogent settlement. My question is, have you given thought to a process or are you willing to accept whatever the bureaucrats deliver to you? Second, have you given consideration to a three-tiered dispute settlement mechanism?

I would like to have your thoughts, if any of you have thoughts on that.

Mr. KITTREDGE. Perhaps, I could answer that just briefly. In our written testimony, we very definitely call out the dispute mechanism as an important aspect of the agreement, in fact, of any trade agreement, the GATT particularly, but specifically in a Mexican agreement. That was very clearly brought out in the survey that we did. Your point about a three-tiered process is a very interesting one. I would have to say that we didn't get into that depth in discussing it with our companies, but it certainly deserves being looked at because that is a very key aspect of any trade agreement.

Mr. SCHULZE. Well, I would be most appreciative if your organization would look at it and give us——

Mr. KITTREDGE. Absolutely.

Mr. SCHULZE. I have, of course, over the years, presented this to the USTR's office with absolutely no effect or impact. But it seems to me that the companies involved should be very concerned about this aspect of any trade negotiations, and——

Mr. KITTREDGE. We will contact your staff.

Mr. SCHULZE [continuing]. And I agree with you with GATT and I had presented it for the Canadian, FTA process, as well.

Mr. BARODY. Mr. Schulze, if I may, the NAM would certainly have an interest in making sure that the mechanisms in place are effective ones. We also have not taken an indepth look at the model that you have proposed, but we will do that.

Mr. SCHULZE. Thank you, Mr. Baroody.

Mr. WORKMAN. Well, certainly the U.S. Chamber has been pushing this course for a long, long time, particularly as it relates to the GATT. We did a survey, a couple of years ago, where we found the average time to process a dispute through the GATT paneling process was something like 30 months.

Three-tiers, two-tiers, one-tier, from our company's point of view, it should be expeditious. Because, while we are going through these disputes, companies are being harmed.

Mr. SCHULZE. Well, but Mr. Workman, I don't believe that you're saying that speed is more important than right?

Mr. WORKMAN. No, but we don't want a process that——

Mr. SCHULZE. What we want, what the people want is justice and we want opportunity to make sure that justice is done. I agree and that's why I think a three-tiered mechanism could probably give us the fastest kind of a process for those disputes that would be relatively routine, and could be solved very rapidly. It is only those that would have policy impacts, long-term policy impacts, which should be deliberatively pursued.

Mr. WORKMAN. I agree, but there is this balancing act that we all strive for. You want accurate information, you want a just decision, and you want it yesterday, and somewhere along the line there has to be a happy medium. That's my point.

Mr. CUZA. We would like to add, AAEI would like to submit some ideas on how to approach your concept. As far as the first tier, we would suggest that we have something where the two customs authorities or three customs authorities are working at the same level to resolve technical issues, before they are escalated to higher levels.

Mr. SCHULZE. Yes, quite frankly, over the years, I think that the bulk of them could be—you know, we have some historic perspectives on this. We have got the disputes which have been settled in the past, and an awful lot of these fall into those guidelines, and I think the majority of them can be processed at that lower level, and I agree wholeheartedly.

Mr. Kersner, do you have anything to add?

Mr. KERSNER. I just would echo what Fermin said.

[The following was subsequently received:]

AMERICAN ASSOCIATION OF EXPORTERS AND IMPORTERS,
New York, NY.

AAEI's IDEAS ON A BINATIONAL (TRINATIONAL) DISPUTE PANEL

Assuming that the antidumping provisions of a North American Free Trade Agreement will resemble those of the U.S.-Canada Free Trade Agreement, the dumping, countervailing and other trade laws of each country will, at least in general, continue to apply to the imports from the other parties to the Agreement. Given this circumstance, an Agreement should certainly embody a binational (trinational) dispute mechanism to provide for independent review of the validity of the findings made by the national bodies of the parties to the Agreement, similar to the binational panel created by the U.S.-Canada Free Trade Agreement. Such a panel would serve to eliminate some of the bias that can otherwise find its way into the review process and will serve to better protect the rights of parties in any given dispute.

Normally, antidumping and countervailing duty orders issued by the International Trade Administration of the U.S. Department of Commerce are reviewable only by the Federal courts of the United States. An exception is made, however, for antidumping and countervailing duty orders covering goods imported from Canada. Under the U.S.-Canada Free Trade Agreement, orders affecting Canada are appealable to a binational dispute panel created under the auspices of the Agreement. A similar dispute resolution mechanism should be included in a North American Free Trade Agreement.

Article 1904 of the U.S.-Canada Free Trade Agreement specifically provides that a binational panel review process is to replace national judicial review of final antidumping orders issued by the parties. The panel's mandate is to determine whether the challenged determination was made in accordance with the antidumping law of the party issuing the order. In making this determination, the panel is directed to look at the same materials which a court of the issuing country would examine in adjudicating the issue.

Either party may request a binational panel review of an order. The investigating authority issuing the order and other persons who would normally have the right to appear at the time of an appeal under national law may appear before the panel and present testimony. The panel may either uphold the contested determination or remand the disputed determination to the national authority for reconsideration. Pursuant to Article 1904 (11) of the Agreement, the panel decisions may not be appealed to the national courts of either party. The Agreement sets out in some detail the procedures and timetable for panel reviews.

The panel review procedures of the U.S.-Canada Free Trade Agreement apply only to final determinations made after the Agreement went into effect. The provisions of the Agreement were, moreover, intended to be provisional only. Article 1906 states that Chapter 19 is to remain in effect for five years "pending the development of a substitute system of rules in both countries for antidumping and countervailing duties as applied to their bilateral trade." In the event that no such substitute system was developed, the provisions of Chapter 19 were to be extended for two more years. Failure to implement a new regime at the close of the two-year extension period gives either party the right to terminate the Agreement on a 6-month notice.

Again, unless a North American Free Trade Agreement contains a provision eliminating the application of antidumping and countervailing duty laws altogether (highly likely), the Agreement should certainly embody a review procedure similar to that found in the U.S.-Canada Free Trade Agreement.

During the U.S.-Canada negotiations for a Free Trade Agreement, U.S. trade negotiators rejected most efforts by the Canadian Government to amend the U.S. antidumping and countervailing law or to provide special treatment for imports from Canada under this law. The only provision Canada and the United States were able to agree upon was a provision establishing a binational review mechanism, and the commitment to continue negotiations for further reform in this area. However, it should be stressed again that the binational review process provides only limited protection to Canadian industries against abuse of the U.S trade laws.

Finally, such a Dispute Settlement Panel can be expanded to encompass other disputes which may arise between the parties, such as customs classifications questions, country of origin issues, etc.

As Mr. Schulze advocates, a three-tiered dispute settlement mechanism is possible whereby the majority of disputes would be settled by a rather broad low-level panel. This panel would continue to review disputes involving antidumping and countervailing duties orders, as well as address Customs, transportation and investment dis-

putes. Each dispute area identified would be represented by officials from each country's appropriate government agencies, who would work to settle the majority of disputes. However, if the matter is not solved at this level it would be passed on to the next higher panel, comprised of officials already participating on the Binational panel with additional authorities to settle the Customs, investment and transportation cases. The highest panel, as Mr. Schulze suggested, would address broad, far-reaching policy decisions that would affect a country's trade laws. This panel could operate under the authority of GATT either by charter or by including a GATT representative on the panel.

Mr. SCHULZE. My next question has to do with tariffs. With the realization that since joining GATT in 1986, Mexico has made remarkable and dramatic progress in reducing tariffs. However, Mexico still has an average applied tariff of about 10 percent, and it is perhaps three times higher than our average. I have heard from some of your companies, and I just want to get your feelings as to whether you think we should push for parity before a phaseout? What I mean by that is if there's a relatively high tariff on one product in Mexico, and it is relatively low in the United States, whether we should try to equalize that tariff and then phase it out over a 5- or 10-year period; or whether we should just say, leave the high tariff. That was one of my concerns with the Canadian agreement.

I was somewhat disappointed in our results with Canada, and I know some of your companies have talked to me, and I wondered, as organizations, whether you have taken any stand, or what your feeling is as these negotiations are initiated?

Mr. KITTREDGE. Well, there was no question in the response from our companies of the importance of lowering tariffs. I don't recall any of the company's making that distinction, but they were all very clear on the point that they should be equalized and phased out.

I think your suggestion is a very good one to be sure that we look at—not taking them down in this respect, and then ending up just as you describe.

Mr. SCHULZE. Exactly, Mr. Kittredge. And one of my concerns is that if there is an inordinately high tariff in one area and they say, that's fine, we'll phase that out over a 10-year period, then that means for 10 years, if you phase out equitably, you are still going to be disadvantaged for that 10-year period. I know that we are not going to bring them all down; we are not going to get equity all the way along, but it seems to me that it must be one of the goals of our negotiators to try to achieve somewhat parity before we start the phaseout, and I am just wondering if you all agree with that approach?

Mr. BARODY. Mr. Schulze, we have, as we indicated in our testimony, we're not sure that it is realistic to expect big drops early in this process, and favor an assertion by the negotiators that the drops, the tariff reductions, should be symmetrical and expect that not only is that the best that we could hope for, but is pretty good, and, in fact, will lead to the fastest and most predictable drop of the tariff rates.

Mr. SCHULZE. Do I read you correctly that it is not then one of your concerns that we try to achieve equity before the phaseout? You are not unhappy with the disparity?

Mr. BARODY. I would say that it is not our expectation that we could do that and that we believe, instead, that the kind of symmetrical reductions I have just outlined would do the trick.

Mr. SCHULZE. So that would not be a priority for negotiation, in your opinion?

Mr. BARODY. That's correct.

Mr. KERSNER. We've taken a somewhat different tack in our written comments, Mr. Schulze. We suggested, and I think the United States-Mexico agreement, in some respects is much more complicated in the tariff sense, than the United States-Canada agreement, where you have a GSP program with Mexico; you have special situations where products which sometimes might have a high-duty rate, and in some instances don't have a high-duty rate; you have products moving in and out of the GSP program depending upon the competitive need limits one year to the next.

So you have a much more complicated situation. I think that we have proposed that you look at it on a sector-by-sector basis and we just don't reduce it symmetrically. If you have a 35-percent tariff rate in the United States and a 20-percent tariff rate in Mexico, which you do have in a number of industries, we don't just start moving them down symmetrically. We may have to achieve the kind of initial parity you are talking about, equalize them, perhaps at the 20-percent rate or even lower if it is justified, and then go from there.

Mr. SCHULZE. Mr. Kersner, if that is expected of us, should we expect the same thing on the other side? Should there be some mutuality?

Mr. KERSNER. Absolutely. I think we should expect and attempt to achieve mutuality on a sector-by-sector basis. Some tariffs are high because they have always been high and maybe there's no legitimate justification, and we view the International Trade Commission and the studies that they are going to undertake in the months ahead on a product-by-product basis, and sector-by-sector basis to give the information to the negotiators to do something, perhaps broader and more beneficial, than just symmetrical phaseouts.

Mr. WORKMAN. Just one point that I would like to add, if you look at the United States-Canada FTA as a model, there was initial reduction in tariffs in January 1989, followed by further reductions in 5-year increments. So it was, if you will, full phased staged over a 10-year period.

But one thing that our companies were particularly pleased with was the feature whereby there was an opportunity, about 6 months after the FTA went into effect, for companies to submit petitions to both Governments for additional tariff reductions, as we got experienced with the operation of the FTA.

From our point of view, we would very much like to see that feature incorporated into an FTA.

Mr. SCHULZE. Mr. Workman, do you have any success stories that you might send us, because of that? I would like very much to have them. I have not heard of any but if there are any, I would appreciate, as one member, having those.

Mr. WORKMAN. OK, we will be glad to.

[The information of Mr. Workman follows:]

U.S. Chamber of Commerce

1615 H Street, N.W.
Washington, D.C. 20062
202'463-5460

International Division

INTERNATIONAL DIVISION ALERT

IMPLEMENTING THE U.S. - CANADA FREE TRADE AGREEMENT

ACCELERATED TARIFF ELIMINATION

U.S. COMPANIES HAVE AN OPPORTUNITY TO ACCELERATE THE ELIMINATION OF TARIFFS ON CERTAIN PRODUCTS TRADED WITH CANADA. IF SPEEDING UP THE REMOVAL OF SPECIFIC TARIFFS WOULD BENEFIT YOUR BUSINESS, NOW IS THE TIME TO TAKE ACTION.

As part of the U.S. - Canada Free Trade Agreement, which went into effect on January 1, 1989, tariffs between the U.S. and Canada will be removed according to one of three schedules, as determined by the product category.

- o Category A - Immediate
- o Category B - 5 years
- o Category C - 10 years

Tariffs can be eliminated at an accelerated rate if the U.S. and Canadian governments agree. Requests for acceleration must be received by February 21 to be considered this year. Information to be included is listed on the back of this page and outlined in 54 Fed. Reg. 3175 (January 23, 1989).

Government contact: Rick Ruzicka, Director for Tariff Negotiations, Office of North American Affairs, Office of the U.S. Trade Representative, Room 501, 600 17th Street, N.W., Washington, D.C. 20506. (202) 395-5663.

Questions? Call Fred Stokeld (202) 463-5488.

(over)

2/9/89

Telex: RCA 248302 (Int'l) TWX 710 822 9382 (Domestic) Cable COCUSA

INFORMATION TO BE INCLUDED IN REQUESTS FOR ACCELERATED TARIFF ELIMINATION

General Information

1. Requestor's name, organization, address, individual in the organization to be contacted concerning the request, telephone number and date of request.

Product Information

2. Product on which accelerated duty elimination is requested and whether the request pertains to the U.S. or Canadian import duty or both.
3. Tariff subheading numbers at the 8-digit level in the U.S. and/or Canadian Harmonized System tariff schedules in which the product is classified and the product description of the subheadings.
4. Whether the request is for all products covered by a tariff subheading listed in number 3, or only the product identified in number 2 above.

Information Regarding the Tariff Elimination Staging

5. Current staging of the tariff elimination contained in Annex 401.2 of the FTA for each product or tariff subheading.
6. Requested accelerated staging of the tariff elimination.
7. Reasons for requesting accelerated tariff elimination.

Statistical Information (To be provided to the extent available. Business confidential material should be so marked so that special handling may be provided.)

8. Requestor's exports to and/or imports from Canada for each product in the most recent three-year period for which data are available
9. Requestor's projected exports and/or imports for the product if tariff elimination is accelerated as requested.
10. Value (in dollars) of requestor s U.S. and/or Canadian production for the most recent three-year period for each product.
11. Requestor's percentage share of U.S. and/or Canadian production for the most recent three years.
12. Names and addresses of known U.S. manufacturers of the products in question.

INSTRUCTIONS FOR SUBMITTING REQUESTS

- Requests should be type-written and submitted in 10 copies to: Rick Ruzicka, Director for Tariff Negotiations, Office of North American Affairs, Office of the U.S. Trade Representative, Room 501, 600 17th Street, N.W., Washington, D.C. 20506. Requests must be received by February 21, 1989 to ensure consideration this year and by January 1 in subsequent years.

LIST OF TARIFF LINES AND PRODUCTS WHERE CANADA AND THE UNITED STATES HAVE AGREED TO ACCELERATE THE ELIMINATION OF THE TARIFF

Department of Finance and
Department of External Affairs

November 30, 1988

The attached annexes identify the tariff lines and products on which Canada and the United States have agreed to accelerate the elimination of the tariff, subject to approval processes in both countries.

In Annex 1, a 6-digit (subheading) number indicates that both countries have agreed to accelerated tariff elimination on all the 8-digit tariff items which fall under the subheading. Where agreement has been reached to accelerate only on some but not all 8-digit tariff items within a subheading, those 8-digit tariff items have been indicated. In these cases, the relevant Canadian tariff item number(s) appears on the left, and the United States tariff item number(s) on the right.

In some instances, agreement has been reached to accelerate the elimination of the tariff only on part of a tariff line. Where this occurs, the numbers affected are followed by a "P" and the relevant products are listed in Annex 2. In Annex 2, "C", "U" or "C/U" designations indicate whether Canada, the United States or both countries have agreed to accelerate tariff elimination on the products.

It should be noted that, in addition to the list of tariff lines set out in Annex 1, both countries have agreed to accelerate tariff elimination on parts of goods which have been agreed for acceleration. These parts fall under subheading numbers 8412.90, 8421.99, 8431.39, 8481.90, 8483.90, 8503.00, 8506.90, 8507.90, 8515.90, 8529.90, 8531.90, 8532.90, 8543.90, 9030.90, 9031.90 and 9032.90.

It should be further noted that both countries have agreed in principle to pursue, on an administratively acceptable basis, acceleration of tariff elimination on fabrics of a kind principally used as decorative outer coverings in the manufacture of upholstered furniture.

Phasing

In the majority of cases the tariff will be eliminated in 1990. The following are the exceptions:

- the tariff on goods of 8481.10, 8481.30, 8481.80 and 8481.90 will be eliminated on January 1, 1991;

- the tariff on certain goods of 8504.23 (P) and 8504.90 (P) (see Annex 2 for specific products) will fall to 6 p.c. on April 1, 1990, to 3 p.c. on January 1, 1991 and to Free on January 1, 1992;

- the tariff on goods of 7416.00, 8483.10, 8501.20, 8501.31, 8536.41, 8539.21, 9026.10, 9026.20, 9026.90, 9030.39, 9030.40, 9030.90, 9032.10, 9032.20 and 9032.89 which have been agreed for acceleration will be eliminated on January 1, 1993.

0201.10 Bovine carcasses and half carcasses, fresh or chilled

0204.10 Lamb carcasses and half carcasses, fresh or chilled

0204.21 Sheep carcasses and half carcasses, fresh or chilled

0409.00 Honey, natural

0410.00 Edible products of animal origin nes

0811.90 Fruits and edible nuts uncook. steam or boil (water) sweetened or not,frozen,nes

Canada		United States	
0811.9040	Cranberries	0811.9035	Cranberries (Vaccinium macrocarpum)

1007.00 Grain sorghum

1102.90 Cereal flour nes

1103.12 Oat groats and meal

1103.14 Rice groats and meal

1104.12 Oats, rolled or flaked grains

1104.19 Cereals, rolled or flaked grains nes

1104.22 Oats, hulled, pearled, sliced, or kibbled

1104.29 Cereals, hulled, pearled, sliced or kibbled nes

1104.30 Germ of cereals, whole, rolled, flaked or ground

1202.10 Ground-nuts in shell not roasted or otherwise cooked

1202.20 Ground-nuts shelled, whether or not broken, not roasted or otherwise cooked

1207.20 Cotton seeds, whether or not broken

1206.10 Soya bean flour and meals

1208.90 Flours and meals of oil seeds or oleaginous fruits, except mustard, nes

1501.00 Lard; pig fat nes & poultry fat, rendered, whether or not pressed or solv-extracted

1503.00 Lard stearin & oil, oleostearin & oil & tallow oil,not emulsifd,mixd or o/w prepr

1506.00 Animal fats & oils & their fractions nes refined or not, but not chemically mod

1903.00 Tapioca substi prep from starch, in flake, grain, pearl, sifting or sim forms

2009.90 (P) Mixtures of juices

2106.10 Protein concentrates and textured protein substances

2201.10 Mineral and aerated waters not cntg sugar or sweetening matter nor flavoured

2309.10 Dog or cat food put up for retail sale

2804.10 Hydrogen

2804.21 Argon

2804.29 Rare gases nes

2804.30 Nitrogen

2804.40 Oxygen

2804.70 Phosphorus

2805.21 Calcium

2805.22 Strontium and barium

2805.30 Rare-earth metals, scandium and yttrium

2811.22 Silicon dioxide

2826.19 Fluorides of metals nes

2827.10 Ammonium chlorides

2827.60 Iodides and iodide oxides of metals

2828.10 Commercial calcium hypochlorite and other calcium hypochlorites

2835.10 Phosphinates (hypophosphites) and phosphonates (phosphites) of metals

2836.30 Sodium hydrogencarbonate (sodium bicarbonate)

2836.99 Carbonates of metals nes; peroxocarbonates (percarbonates) of metals

2841.60 Manganites, manganates and permanganates of metals

2843.21 Silver nitrate

2843.29 Silver compounds nes

2843.90 Precious metal compounds nes; amalgams

2901.10 Saturated acyclic hydrocarbons

2901.29 (P) Unsaturated acyclic hydrocarbons nes

2903.11 Chloromethane (methyl chloride) and chloroethane (ethyl chloride)

2903.12 Dichloromethane (methylene chloride)

2903.15 1,2-dichloroethane (ethylene dichloride)

2903.30 Fluorinated, brominated or iodinated derivatives of acyclic hydrocarbons

Canada	United States
2903.3090 Other	2903.3015 Acetylene tetrabromide; alkyl bromides; methylene dibromide; and vinyl bromide
	2903.3020 Fluorinated, brominated or iodinated derivatives of acyclic hydrocarbons, nes

2903.59 Halogenated derivs of cyclanic, cyclenic or cycloterpenic hydrocarbons, nes

Canada	United States
2903.5900 (P) Other	2903.5905 Dibromoethyldibromocyclohexane
	2903.5940 1,3,5,7,9,11-hexabromocyclododecane

2905.11 Methanol (methyl alcohol)

2905.13 Butan-1-ol (N-butyl alcohol)

2905.16 Octanol (octyl alcohol) and isomers thereof

2905.17 Dodecan-1-ol, hexadecan-1-ol and octadecan-1-ol

2905.43 Mannitol

2905.44 D-glucitol (sorbitol)

2905.50 Halogenated, sulphonated, nitrated or nitrosated derivs of acyclic alcohols

Canada	United States
2905.5000 (P) Halogenated, sulphonated, nitrated or nitrosated derivs of acyclic alcohols	2905.5010 Derivatives of monohydric alcohols
	2905.5050 Other

2907.29 Polyphenols nes

Canada	United States
2907.2900 (P) Other	2907.2910 Pyrogallic acid
	2907.2950 Unsubstituted polyphenols, nes

2908.10 Derivs of phenols or phenol-alc cmlg only halogen subst & their salts

2909.19 (P) Acyclic ethers nes; derivatives of acyclic ethers

2909.30 Aromatic ethers and their derivatives

Canada	United States
2909.3000 (P) Aromatic ethers and their halogenated, sulphonated, nitrated or nitrosated derivatives	2909.3005 5-chloro-2-nitroanisole; 6-chloro-3-nitro-p dimethoxybenzene; and dimethyl diphenyl ether
	2909.3007 Decabromodiphenyl oxide, and octabromodiphenyl oxide
	2909.3040 (P) Aromatic ethers and their halogenated, sulfonated, nitrated or nitrosated derivatives described in additional U.S. note 3 to section VI

2912.11 Methanal (formaldehyde)

2912.19 Acyclic aldehydes w/out other oxygen function, nes

2914.19 Acyclic ketones without other oxygen function, nes

Canada	United States
2914.1900 (P) Other	2914.1900 Acyclic ketones without other oxygen function, nes

2915.90 Saturated acyclic monocarboxylic acids and their derivatives, nes

Canada	United States
2915.9000 (P) Other	2915.9010 Fatty acids of animal or vegetable origin, nes
	2915.9050 Nonaromatic anhydrides, halides, peroxides and peroxyacids, of saturated acyclic monocarboxylic acids, and their derivatives, nes

2916.12 Acrylic acid esters

2916.19 Unsaturated acyclic monocarboxylic acids and their derivatives, nes

Canada	United States
2916.1900 (P) Other	2916.1960 Unsaturated acyclic monocarboxylic acid anhydrides, halides, peroxides, peroxyacids and their derivatives, nes

2916.32 Benzoyl peroxide and benzoyl chloride

2916.39 Aromatic monocarboxylic acids and their derivatives, nes

Canada	United States
2916.3900 (P) Other	2916.3910 Benzoic anhydride; tert-butyl peroxybenzoate; 4-chloro-3-nitrobenzoic acid, m-chloroperoxybenzoic,2-nitr-m-toluic,3-nitro-o-toluic acid p-nitrobenz, etc.
	2916.3915 Ibuprofen

2917.12 Adipic acid, its salts and esters

Canada	United States
2917.1200 (P) Adipic acid, its salts and esters	2917.1210 Adipic acid

2917.19 Acyclic polycarboxylic acids and their derivatives, nes

Canada	United States
2917.1900 (P) Other	2917.1915 Derived in whole or in part from aromatic hydrocarbons
	2917.1917 Fumaric acid except derived in whole or in part from aromatic hydrocarbons
	2917.1960 Nonaromatic acyclic polycarboxylic acids, their anhydrides, halides, peroxides, peroxyacids and their derivatives, nes

2917.39 Aromatic polycarboxylic acids and their derivatives, nes

Canada	United States
2917.3900 (P) Other	2917.39

2918.14 Citric acid

2918.15 Salts and esters of citric acid

2918.19 Carboxylic acids with alcohol function only and their derivatives, nes

Canada	United States
2918.1990 (P) Other	2918.1910 Benzilic acid, and benzilic acid, methyl ester
	2918.1960

2918.29 Carboxylic acids with phenol function only and their derivatives, nes

Canada	United States
2918.2900 (P) Other	2918.29

2921.12 Diethylamine and its salts

2921.29 Acyclic polyamines nes, and their derivatives; salts thereof

2921.44 Diphenylamine and its derivatives; salts thereof

Canada	United States
2921.4400 (P) Diphenylamine and its derivatives; salts thereof	2921.4410 Nitrodiphenylamine
	2921.4460 (P) Other

2922.50 Amino-alcohol-phenols, amino-acid-phenols & other amino-compds with oxygen func

Canada	United States
2922.5000 (P) Amino-alcohol-phenols, amino-acid-phenols and other amino-compounds with oxygen function	2922.5015 Aromatic cardiovascular drugs of amino-compounds with oxygen function

2925.19 Imides and their derivatives, nes; salts thereof

Canada	United States
2925.1900 (P) Other	2925.1910 Ethylenebistetrabromophthalimide
	2925.1920 Aromatic imides and their derivatives; salts thereof, nes
	2925.1950 (P) Nonaromatic imides and their derivatives; salts thereof, nes

2929.10 Isocyanates

2931.00 (P) Organo-inorganic compounds, nes

2932.29 Lactones, nes

Canada	United States
2932.2900 (P) Other lactones	2932.29

2932.90 Heterocyclic compounds with oxygen hetero-atom(s) only, nes

Canada	United States
2932.9000 (P) Other	2932.90

2933.29 (P) Heterocyclic compds cntg an unfused imidazole ring in the structure, nes

2933.39 (P) Heterocyclic compds cntg an unfused pyridine ring in the structure, nes

2933.59 Heterocycl compds cntg a pyrimidine rng or piperazine rng, nes; nucleic acidsss

Canada	United States
2933.5900 (P) Other	2933.59

2933.71 6-hexanelactam (epsilon-caprolactam)

2933.90 (P) Heterocyclic compds with nitrogen hetaro-atom(s) only, nes

2934.20 Heterocyclic compounds containing a benzothiazole ring-system not further fused

Canada	United States
2934.2000 (P) Compounds containing a benzothiazole rng-system (whether or not hydrogenated), not further fused	2934.2010 2,2'-Dithiobisbenzothiazole 2934.2015 2-Mercaptobenzothiazole; and N-(Oxydiethylene)benzothiazole-2-sulfenamide 2934.2020 Compounds containing a benzothiazole rng-system

2934.90 Heterocyclic compounds, nes

Canada	United States
2934.9090 (P) Other	2934.9050 Other

2936.00 Sulphonamides in bulk

Canada	United States
2936.0000 (P) Sulphonamides	2936.0045 Other 2936.0050 Other

2936.24 D-or DL-pantothenic acid (Vit B3 or B5) and its derivatives, unmixed

2936.27 Vitamin C and its derivatives, unmixed

2936.29 Vitamins nes, and their derivatives, unmixed

2936.90 Vitamin concentrates; intermixtures of vitamins, of provitamins or of conc

Canada	United States
2936.9000 (P) Other, including natural concentrates	2936.9000 Vitamins or provitamins nes (including natural concentrates) and intermixtures of the foregoing, whether or not in any solvent

2938.30 Caffeine and its salts, in bulk

2940.00 Sugars, chemically pure, their ethers, esters and their salts

2941.90 Antibiotics nes, in bulk

Canada	United States
2941.9000 (P) Other	2941.90

3002.90 Human blood; animal blood for therap, prophlc or diag uses; microbial prep nes

Canada	United States
3002.9010 Toxins, toxoids, antitoxins, viruses, bacteriophage and bacterial lysates, prepared for parenteral administration for therapeutic, prophylactic or diagnostic use in humans/ butter-making ferment cultures/ dried blood, whether or not soluble	3002.9010 Ferments

3004.90 (P) Medicaments nes, in dosage

3006.10 Suture materials,sterile; laminaria, sterile; haemostatics, sterile, surg or dents

3701.20 Photographic instant print film in the flat, sensitised, unexposed

3702.20 Instant print film in rolls, sensitised, unexposed

3702.32 Silver halide film in rolls, sensitised, unexposed w/o sprocket holes, 105mm

3702.41 Colour film in rolls, sens., unexp., w/o sprocket holes, of a w >610mm, le >200m

3702.42 Film in rolls, w/o sprocket holes,unexp, sens, width >610mm & le >200m o/t colour

3702.52 Film for colour photo sens, unexp, in rolls, width ≠16mm & le > 14 m, nes

3702.55 Film for colour photo sens, unexp, in rolls w > 16mm but ≠ 35 mm & length > 30m

3702.92 Photo film in rolls, sens, unexp, width ≠ 16 mm and length > 14 m, nes

3702.94 Photo film in rolls, sens, unexp, width > 16 mm but ≠ 35 mm and length > 30m nes

Canada	United States
3702.9490 Other	3702.9400 Of a width exceeding 16 mm but not exceeding 35 mm and of a length exceeding 30 m

3703.10 Photographic paper, paperboard & textile sens, unexp in rolls of a width > 610mm

3703.20 Photographic paper, paperboard & textile sens, unexp for colour photography

3707.10 Sensitised emulsions prepared for photograpic uses, in measured portions

3707.90 Chemical preparations for photographic uses, put up in measured portions, nes

Canada	United States
3707.9000 (P) Other	3707.9030 Chemical preparations for photographic uses (other than varnishes, glues, adhesives and similar preparations) 3707.9060 Unmixed products for photographic uses, put up in measured portions or put up for retail sale in a form ready for use

3804.00 (P) Residual lyes from the manufacture of wood pulp

3806.10 Rosin

3806.30 Ester gums

3810.90 Fluxes & other prep for soldering; core or casting prep for weld electds or rods

3811.11 Anti-knock preparations based on lead compounds

3811.19 Anti-knock preparations, nes

3811.90 Reaction initiators, reaction accelerator and catalytic preparations, nes

3823.60 Sorbitol nes

3823.90 (P) Chemical products,prep & residual prod of the chemical or allied industries,nes

3903.20 Styrene-acrylonitrile (SAN) copolymers

Canada	United States
3903.2090 Other	3903.2000 Styrene-acrylonitrile (SAN) copolymers, in primary forms

3905.20 Polyvinyl alcohols, whether or not containing unhydrolysed acetate groups

3905.90 Polyvinyl esters nes; other vinyl polymers in primary forms

Canada	United States
3905.9000 (P) Other	3906.9010 Polymers of vinyl esters, in primary forms cont. 50% or more of derivatives of vinyl acetate
	3906.9050 Polymers of vinyl esters, in primary forms; other vinyl polymers, in primary forms, nes

3907.60 Polyethylene terephthalate

3908.10 Polyamide-6, -11, -12, -6,6, -6,9, -6,10 or -6,12

3908.90 Polyamides nes, in primary forms

3911.90 Polysulphides, polysulphones & other products of Note 3 Chap 39, nes

Canada	United States
3911.9000 (P) Other	3911.9020 Thermoplastic nonelastomeric products in note 3 to Chap. 39, nes,in primary forms, of or obtained from aromatic/mod. aromatic monomer units

3912.31 Carboxymethylcellulose and its salts

3913.10 Alginic acid, its salts and esters

3920.62 Film and sheet etc, non-cellular etc, of polyethylene terephthalates

3920.73 Film and sheet etc, non-cellular etc, of cellulose acetate

3926.90 Articles of plastics or of other materials of Nos. 39.01 to 39.14 nes

Canada	United States
3926.9090 (P) Other	3926.9015 Nursing nipples and pacifiers
	3926.9090 (P) Articles of plastics and other materials of headings 3901 to 3914, nes

4014.90 Hygienic or pharmaceutical articles of rubber etc. nes

Canada	United States
4014.9000 (P) Other	4014.9010 Nursing nipples
	4014.9060 (P) Hygienic or pharmaceutical articles nes, of vulcanized rubber other than hard rubber, with or without fittings of hard rubber

4201.00 Saddlery and harness for any animal, of any material

4412.12 Plywood, at least 1 outer ply of non-coniferous wood nes (ply's <6 mm)

Canada	United States
4412.1210 (P) Whether or not panted, edge or face-worked, but not otherwise worked or surface covered	4412.1210 (P) Plywood of wood sheets n/o 6 mm thick each, outer ply of nonconiferous wood, with face ply of birch, not or clear surface covered
4412.1290 (P) Other	

4418.90 Builder's joinery and carpentery of wood nes

Canada	United States
4418.9090 (P) Other	4418.9040 (P) Builders' joinery and carpentry of wood, including cellular wood panels, nes

4421.90 (P) Wood articles nes

4504.90 Articles of agglomerated cork nes, with or without binder

4602.10 Basketwork, wickerwork and other articles made up from plaited vegetable mat

Canada	United States
4602.1092 Baskets of bamboo or of interwoven vegetable fibres	4602.1011 Baskets and bags, nes, whether or not lined, of bamboo
	4602.1012 Baskets and bags, nes, whether or not lined, of willow
	4602.1013 Baskets and bags, nes, whether of not lined, of rattan or of palm leaf
	4602.1019 Baskets and bags, nes, whether or not lined, of vegetable materials, nes

5308.90 Yarn of other vegetable textile fibres

5402.10 High tenacity yarn (o/t sewing thread), nylon/other polyamides fl, not put up

Canada	United States
5402.1000 (P) High tenacity yarn of nylon or other polyamides	5402.1030 Single high tenacity yarn of nylon or polyamides, not put up for retail sale

5402.20 High tenacity yarn (o/t sewing thread), of polyester filaments, not put up

Canada	United States
5402.2000 (P) High tenacity yarn of polyesters	5402.2030 Single high tenacity yarn of polyesters, not put up for retail sale

5402.41 (P) Yarn of nylon or other polyamides fl, single, untwisted, nes, not put up

5402.42 Yarn of polyester filaments, partially oriented, single, nes, not put up

5402.43 (P) Yarn of polyester filaments, single, untwisted, nes, not put up

5402.49 (P) Yarn of synthetic filaments, single, untwisted, nes, not put up

5402.51 (P) Yarn of nylon or other polyamides fl, single, > 50 turns/m, not put up

5402.59 (P) Yarn of synthetic filaments, single, > 50 turns/m, nes, not put up

5402.61 (P) Yarn of nylon or other polyamides fl, multiple, nes, not put up

5402.69 (P) Yarn of synthetic filaments, multiple, nes, not put up

5403.20 Textured yarn nes, of artificial filaments, not put up for retail sale

5407.41 (P) Woven fabrics, 85% of nylon/other polyamides filaments, unbl or bl, nes

5503.10 (P) Staple fibres of nylon or other polyamides, not carded or combed

5503.90 (P) Synthetic staple fibres, not carded or combed, nes

5504.10 Staple fibres of viscose, not carded or combed

5505.20 Waste of artificial fibres

5506.10 (P) Staple fibres of nylon or other polyamides, carded or combed

5506.90 (P) Synthetic staple fibres, carded or combed, nes

5507.00 Artificial staple fibres, carded or combed

5801.22 Cut corduroy fabrics of cotton, o/t narrow fabrics

5801.32 Cut corduroy fabrics of man-made fibres, o/t narrow fabrics

5911.10 Textile fabrics used for card clothing, and similar fabric for technical uses

Canada	United States
5911.1000 (P) Textile fabrics, felt fabrics, combined with one or more layers, for card clothing and technical uses.	5911.1010 Printers' rubberized blankets 5911.1020 Other

5911.90 (P) Textile products and articles for technical uses, nes

6602.00 (P) Walking-sticks, seat-sticks, whips, riding-crops and the like

6903.20 Refractory ceramic goods nes, > 50% of Al2O3 or mx/compds alumina/silica SiO2

6903.90 Refractory ceramic goods nes

Canada	United States
6903.9090 Other	6903.9000 Other

7011.10 Glass envelopes (including bulbs/tubes) for electric lighting

7013.32 Table/kitchenware (exc. drinking glasses) o/t glass ceramics coef. < 5 X 10-6 etc.

7019.10 Slivers, rovings, yarn and chopped strands of glass

Canada	United States
7019.1021 Yarn, solely of glass filaments for use in the manufacture of woven tire fabrics	7019.1010 (P) Yarns of glass fibers, not colored 7019.1020 (P) Yarns of glass fibers, colored

7019.20 Woven fabrics, including narrow fabrics of glass fibres

Canada	United States
7019.2010 Of a kind used in the manufacture of tires	7019.20 (P)

7106.10 Silver powder

7108.11 Gold powder non-monetary

7115.10 Catalysts in the form of wire cloth or grill, of platinum

7302.30 Switch blades, crossing frogs, point rods & other crossing pieces, I or s

7302.90 Rail or tramway construction material of iron or steel, nes

7307.11 Fittings, pipe or tube, of non-malleable cast iron

Canada	United States
7307.1190 (P) Other	7307.11 (P)

7307.19 Fittings, pipe or tube, cast, of iron or steel, nes

Canada	United States
7307.1990 (P) Other	7307.19 (P)

7315.11 Chain, roller, iron or steel

7315.19 Chain parts, articulated link, iron or steel

7322.90 (P) Air heaters, hot air distributors, iron or steel & identifiable parts, nes

7322.91 Table, kitchen or other household art & parts thereof, of cast iron not enam nes

Canada	United States
7323.9100 Of cast iron, not enamelled	7323.9160 Other

7323.94 Table, kitchen or other household art & parts thereof, I or s, enamelled, nes

7404.00 Waste and scrap, copper or copper alloy

7418.00 Springs, copper

7505.11 **Bars, rods and profiles, nickel, not alloyed**

7505.12 **Bars, rods and profiles, nickel alloy**

7505.21 **Wire, nickel, not alloyed**

7505.10 **Plates, sheet, strip and foil, nickel, not alloyed**

7505.20 **Plates, sheet, strip and foil, nickel alloy**

7603.10 **Powders, aluminum, of non-lamellar structure**

7603.20 **Powders, aluminum, of lamellar structure, including flakes**

7605.11 **Wire, aluminum, not alloyed, with a max. cross sectional dimension exceeding 7mm**

Canada		United States	
7605.1112	Coated or covered	7605.1100	Aluminum wire, not alloyed, of which the maximum cross-sectional dimension exceeds 7 mm
7605.1121	Not coated or covered		
7605.1122	Coated or covered		

7605.19 **Wire, aluminum, not alloyed, with a max. cross sectional dim of 7mm or less**

7605.21 **Wire, aluminum alloy, with a maximum cross sectional dimension exceeding 7mm**

7605.29 **Wire, aluminum alloy, with a maximum cross sectional dimension of 7mm or less**

7606.12 **Plate, sheet or strip, aluminum alloy, rect or sq, exceeding 0.2mm thick**

Canada		United States	
7606.1219	Other	7606.1230	Rectangular (including square) plates, sheets and strip of aluminum alloys, of a thickness exceeding 0.2 mm, not clad
		7606.1250	Rectangular (including square) plates, sheets and strip of aluminum alloys of a thickness exceeding 0.2 mm, clad

7608.00 **Fittings, pipe or tube, aluminum, for example couplings, elbows, sleeves, etc**

8112.11 Beryllium unwrought; waste and scrap; powders

8112.19 Beryllium and articles thereof, nes

8204.11 (P) Wrenches, hand-operated, with non-adjustable jaws

8207.30 Tools for pressing, stamping or punching

8207.40 Tools for tapping or threading

8207.50 Tools for drilling, other than for rock drilling

8213.00 Scissors, tailors' shears and similar shears, and blades therefor

Canada		United States
8213.0010	Scissors and shears	8213.00

8301.30 Locks of a kind used for furniture of base metal

8301.40 (P) Locks of base metal, nes

8301.60 (P) Lock parts, including parts of clasps or frames with clasps, of base metal, nes

8301.70 Keys, including blanks for keys presented separately, of base metal

8305.10 Fitting for loose-leaf binders or files of base metal

8412.31 Pneumatic power engines & motors linear acting (cylinders)

8412.39 Pneumatic power engines & motors nes

8413.19 Pumps fitted or designed to be fitted with a measuring device nes

8413.30 Hand pumps nes, ot those of subheading No 8413.11 or 8413.19

8413.60 Rotary positive displacement pumps nes

8418.61 (P) Compression type refrigerating or freez equip whose condensers are heat exchan

8418.69 (P) Refrigerating or freezing equipment, nes

8424.81 Mech appl for proj/disp or spraying liquids or powders for agr or horticul

8426.49 Derricks, cranes or work trucks fitted with a crane, self-propelled nes

8427.90 Trucks fitted with lifting or handling equipment, non-powered

8428.20 Pneumatic elevators and conveyors

8451.90 Pts of washing/cleaning/drying/ironing/dyeing mach etc (o/t hdg no 84.50)

Canada		United States	
8451.9030	Of the goods of tariff item No. 8451.1000, 8451.2990, 8451.3000, 8451.4090, 8451.5000 or 8451.8090	8451.9000	Parts
8451.9040	Of the goods of tariff item No. 8451.8010		

8458.99 Lathes nes for removing metal

Canada		United States	
8458.9900 (P)	Other	8458.9910	Vertical turret lathes for removing metal, other than numerically controlled

8460.40 Honing or lapping machines for removing metal

8460.90 (P) Mach-tools for deburring polishing etc. for fin met nes o/t hdg 84.61

8465.93 Grinding/sanding or polishing mach for working wood/cork/bone/hard rubber etc.

8466.93 (P) Parts and accessories nes for use on machines of heading No 84.56 to 84.61

8472.10 Office duplicating machines

8472.90 Office machines, nes

Canada	United States
8472.9090 Other	8472.9040 Pencil sharpeners
	8472.9080 Office machines, nes

8473.10 Parts and accessories of typewriters and word-processing machines, o/t cases

8473.40 Parts and accessories of other office machines, nes

8477.30 Blow moulding machines for working rubber or plastics nes

8477.80 (P) Mach for working rubber or plastics or for the mfr of prods from these mat nes

8477.90 (P) Pts of mach for wrkg rubber or plas or for the mfr of prods from these mat nes

8481.10 Valves, pressure reducing

8481.30 Valves, check

8481.80 Taps, cocks, valves and similar appliances, nes

Canada	United States
8481.8020 Wellhead valves not less than 5.08cm nor exceeding 7.62cm nominal size, rated for service in working pressures not exceeding 13,790 kPa W.O.G. (water, oil, gas), excluding check valves and needle valves, to be employed in the exploration, discovery, development, maintenance, testing, depletion or production of oil or natural gas wells	8481.80 (P)
8481.8091 Power-operated	

8483.10 (P) Transmission shafts and cranks, including cam shafts and crank shafts

Canada	United States
8483.1090 (P) Other	8483.1030 Camshafts and crankshafts nes
	8483.1050 Transmission shafts and cranks other than camshafts and crankshafts

8483.30 Bearing housings, not incorporating ball or roller bearings; plain shaft bearings

8483.60 Clutches and shaft couplings (including universal joints)

Canada	United States
8483.6090 Other	8483.6040 (P) Clutches and universal joints
	8483.6080 Other

8501.20 Universal AC/DC motors of an output exceeding 37.5 W

8501.31 DC motors, DC generators, of an output not exceeding 750 W

8501.32 DC motors, DC generators, of an output exceeding 750 W but not exceeding 75 KW

8501.33 DC motors, DC generators, of an output exceeding 75 KW but not exceeding 375 KW

Canada	United States
8501.3311 Gear motors	8501.3330 (P) DC motors, nes, 149.2 kW or more but not exceeding 150 kW
8501.3321 Gear motors	8501.3340 (P) DC motors nes

8501.34 DC motors, DC generators, of an output exceeding 375 KW

Canada	United States
8501.3411 Gear motors	8501.3430 (P) DC motors nes, of an output exceeding 375 kW

8501.51 AC motors, multi-phase, of an output not exceeding 750 W

Canada	United States
8501.5110 Gear motors	8501.51 (P)

8501.53 AC motors, multi-phase, of an output exceeding 75 KW

Canada	United States
8501.5311 Gear motors; synchronous motors when presented with a matched synchronous generator of tariff item No. 8501.62.11, 8501.62.21, 8501.63.10 or 8501.64.10	8501.5360 (P) AC motors, nes, multi-phase, 149.2 kW or more but not exceeding 150 kW
8501.5321 Gear motors; synchronous motors when presented with a matched synchronous generator of tariff item No. 8501.62.11, 8501.62.21, 8501.63.10 or 8501.64.10	8501.5380 (P) AC motors, nes, multi-phase, of an output exceeding 150 kW

8501.61 AC generators (alternators), of an output not exceeding 75 KVA

8501.62 AC generators, of an output exceeding 75 KVA but not exceeding 375 KVA

8504.23 (P) Liq dielectric transf having a power handling capacity exceeding 10,000 KVA

8504.90 (P) Parts of electrical transformers, static converters and inductors

8505.11 Permanent magnets and articles intended to become permanent magnets, of metal

8506.12 Mercuric oxide primary cells & batteries of an external volume ≠ 300 cm^3

8506.13 Silver oxide primary cells & batteries of an external volume ≠ 300 cm^3

8507.30 Nickel-cadmium electric accumulators

8507.40 Nickel-iron electric accumulators

8507.80 Electric accumulators, nes

8509.40 (P) Domestic food grinders and mixers; fruit or vegetable juice extractors

8516.11 Electric soldering irons & guns

8516.72 Electro-thermic toasters, domestic

8517.30 Telephonic or telegraphic switching apparatus

Canada	United States
8517.3011 Central office switching apparatus	8517.3015 Electrical central office telephone switching apparatus
8517.3013 Electronic key telephone systems	United States: 8517.3025 Electronic key telephonic switching system

8517.40 Apparatus, for carrier-current line systems, nes

Canada	United States
8517.4090 Other	8517.4060 Electrical apparatus for telephonic carrier-current line systems, nes
	8517.4070 Electrical apparatus for telegraphic carrier-current line systems, nes

8517.81 Telephonic apparatus, nes

8517.82 Telegraphic apparatus, nes

Canada	United States
8517.8290 Other	8517.8200 Telegraphic

8517.90 Parts of electrical apparatus for line telephony or line telegraphy

Canada	United States
8517.9020 Of the goods of tariff item No. 8517.3013, 8517.3019, 8517.4090 or 8517.8100	8517.90
8517.9040 Of the goods of tariff item No. 8517.2000, 8517.3020, 8517.8220 or 8517.8290	

8523.13 (P) Unrecorded magnetic tapes, of a width exceeding 6.5 mm

8523.20 Unrecorded magnetic discs

8525.10 Transmission apparatus for radio-teleph radio-broadcasting or television

8525.20 (P) Transmission apparatus, for radio-teleph incorporating reception apparatus

8526.30 Television cameras

8527.11 Radio broad rece capable of op w/o an external source of power & combined

8527.31 Radio broad rece combined with sound recording or reproducing apparatus nes

8527.32 Radio broad rece not combi with sound recording but combined with a clock, nes

8529.10 (P) Aerials and aerial reflectors of all kinds; parts suitable for use therewith

8531.10 Burglar or fire alarms and similar apparatus

8531.20 Indicator panels incorporating liquid crystal devices or light emitting diodes

8532.21 Electrical capacitors, fixed, tantalum, nes

8532.22 Electrical capacitors, fixed, aluminum electrolytic, nes

8532.30 Electrical capacitors, variable or adjustable (pre-set)

8533.10 Electrical resistors, fixed carbon, composition or film type

8533.21 Electrical resistors fixed for a power handling capacity not exceeding 20 W

8533.29 Electrical resistors, fixed, other than heating resistors, nes

8533.31 Wirewound variable resistors, including rheostat and potentiometers ≠ 20 W

8533.39 Wirewound variable resistors, including rheostat and potentiometers, nes

8533.40 Variable resistors, including rheostats and potentiometers, nes

8533.90 Parts of electrical resistors, rheostats and potentiometers

8534.00 Printed circuits

8536.41 Electrical relays for a voltage not exceeding 60 volts

8539.10 Sealed beam lamp units

Canada	United States
8539.1090 Electric sealed beam lamp units, excluding those for use with the motor vehicles of Chapter 87	8539.1000 Sealed beam lamp units

8539.21 (P) Filament lamps, tungsten halogen

8539.29 Filament lamps, excluding ultraviolet or infra-red lamps, nes

Canada	United States
8539.2910 For voltage exceeding 31 V	8539.2910 Christmas-tree lamps
	8539.2920 Lamps having glass envelopes not over 6.35 mm in maximum diameter and suitable for use in cystoscopes and other surgical instruments
	8539.2930 Other
8539.2929 Other	

8539.40 Ultra-violet or infra-red lamps; arc lamps

Canada	United States
8539.4090 Other	8539.4040 Arc lamps
	8539.4060 Ultraviolet or infra-red lamps

8539.90 Parts of electric filament or discharge lamps, UV or IR lamps and arc-lamps

8540.20 Television camera tubes, image converter and other photocathode tubes

8540.30 Cathode-ray tubes, nes

8540.41 Magnetron tubes

8540.42 Klystron tubes

8540.49 Microwave tubes, nes

8541.60 Mounted piezo-electric crystals

8543.20 Signal generators

8544.30 Ignition wiring sets & other wiring sets of a kind used in vehicles, aircraft etc

8545.90 Articles of carbon or graphite, of a kind used for electrical purposes, nes

Canada	United States
8545.9010 Electric light carbons, arc carbons and contact carbons	8545.9020 Arc light carbons of a kind used for electrical purposes
	8545.9040 Lamp carbons, battery carbons and articles of graphite or other carbon nes, of a kind used for electrical purposes

8602.10 Rail locomotives, diesel-electric

8607.11 Driving bogies and bissel-bogies

8607.91 Locomotive parts nes

8608.00 Signalling devices for railways, waterways and airports and parts thereof

8701.30 Track-laying tractors (crawlers)

8716.39 (P) Trailers nes for the transport of goods

8903.99 (P) Rowing boats, canoes, sculls and other pleasure boats, nes

9002.11 Objective lenses for cameras, projectors or photographic enlargers or reducers

Canada	United States
9002.1120 For cinematographic projectors	9002.1140 Projection

9007.29 Cinematographic projectors, nes

9007.92 Parts and accessories for cinematographic projectors

9008.12 Electrostatic photo-copying apparatus, indirect process type

9009.90 Parts and accessories for photo-copying apparatus

9010.20 Apparatus and equipment for photographic (incl. cine) lab; negatoscopes, nes

9010.30 Projection screens

9010.90 Parts and accessories for apparatus and equipment for photographic laboratories

9014.80 Navigational instruments and appliances nes

Canada	United States
9014.8090 Other	9014.8040 Electrical navigational instruments and appliances, nes

9015.80 Surveying, hydrographic, oceanographic, meteorological or geophysical inst. nes

Canada	United States
9015.8010 Geophysical instruments, excluding theodolites of subheading No. 9015.20, magnetometers, gravimeters and geophone stringers	9015.8060 Seismographs

9018.49 Instruments and appliances, used in dental sciences, nes

Canada	United States
9018.4900 Other	9018.4980 Other

9018.90 Instruments and appliances used in medical or veterinary sciences, nes

Canada	United States
9018.9000 Other instruments and appliances	9018.9070 Other

9019.20 Oxygen therapy, artificial respiration or other therapeutic respiration app

9026.10 Instruments and apparatus for measuring or checking the flow or level of liquids

9026.20 Instruments and apparatus for measuring or checking pressure

9026.80 Instruments & apparatus for measuring or check variables of liq or gases, nes

9026.90 Parts of inst and app for measuring or checking variables of liq or gases, nes

9030.31 Multimeters

9030.39 Inst & app, for measuring or checking voltage, current, etc w/o a record dev

9030.40 Instruments and apparatus, specially designed for telecommunications nes

9031.20 Test benches for measuring or checking instruments, appliances and machines nes

9031.40 Optical instruments and appliances, nes

9032.10 Thermostats

9032.20 Manostats

9032.89 (P) Automatic regulating or controlling instruments and apparatus, nes

9207.10 Keyboard instruments, exc accordions, sound generated/amplified electrically

Canada		United States	
9207.1010	Electric organs	9207.1000	Keyboard instruments, other than accordians

9402.10 Dentists', barbers' or similar chairs and parts thereof

9405.40 (P) Electric lamps and lighting fittings, nes

9405.91 (P) Lamps and lighting fittings parts of glass

9405.92 (P) Lamps and lighting fittings parts of plastics

9405.99 (P) Lamps and lighting fittings, parts of nes

9506.99 (P) Articles & equip for sports & outdoor games nes & swimming & paddling pools

9607.30 (P) Fishing reels

9602.00 Worked veg/mineral carving mat & art, carved art nes; worked unhardened gelatin

Canada	United States
9602.0010 Gelatin capsules for pharmaceutical products; artificial honeycombs	9602.0010 Worked unhardened gelatin and articles thereof

9608.10 Ball point pens

9616.10 Scent sprays and similar toilet sprays, and mounts and heads thereof

9617.00 Vacuum flasks/vacuum vessels complete w/cases; parts thereof o/t glass inners

Canada	United States
9617.0000 Vacuum flasks and other vacuum vessels, complete with cases, parts thereof other than glass inners	9617.0010 Vessels having a capacity not exceeding 1 litre
	9617.0030 Vessels having a capacity exceeding 1 litre but not exceeding 2 litres
	9617.0060 Parts

ANNEX 2

LIST OF PRODUCTS PROVISIONALLY AGREED FOR ACCELERATION OF DUTY REMOVAL UNDER THE CANADA-UNITED STATES FREE TRADE AGREEMENT

SUBHEADING		BRIEF PRODUCT DESCRIPTION
2009.90	C/U	mixtures of pineapple juice and citrus juices, containing not less than 50 p.c. pineapple juice
2901.29	C/U	acetylene
2903.59	C	dibromoethyldibromocyclohexane
		hexabromocyclododecane
2905.50	C	dibromoneopentyl glycol
2907.29	C	4,4'- methylene bis(2,6-di-t-butylphenol)
		1,3,5-trimethyl-2,4,6-tris(3,5-di-tert-butyl-4-hydroxbenzyl)benzene
		2,2'- methylene bis(4-ethyl-6-tert butylphenol)
		2,2'- methylene bis(4-methyl-6-tert butylphenol)
		pyrogallic acid
2909.19	C	methyl tert butyl ether (MTBE)
2909.30	C	5-chloro-2-nitroanisole; 6-chloro-3-nitro-p-dimethoxybenzene; and dimethyl diphenyl ether
	C	decadibromodiphenyl oxide and octabromodiphenyl oxide
	C/U	tetradecabromodiphenoxybenzene
2914.19	C	methyl isoamyl ketone (5-methyl-2-hexanone)
		2,3-butanedione

2915.90	C	dodecanoic acid
		stannous octates
		9-fluorenylmethyl chloroformate
2916.19	C	methacryloyl chloride
2916.39	C	ibuprofen (2-(4 isobutyl phenyl) propionic acid
		(t-butyl perbenzoate) t-butylperoxybenzoate; benzoic anhydride; 4-chloro-3-nitrobenzoic acid; m-chloroperoxybenzoic acid; p-nitrobenzoyl chloride; 2-nitro-m-toluic acid; 3-nitro-o-toluic acid
2917.12	C	adipic acid
2917.19	C	fumaric acid
		oxalyl chloride
		methyl oxalyl chloride
2917.39	C	1,2,4-benzenetricarboxylic acid, 1,2-dianhydride (trimellitic anhydride); naphthalic anhydride; phthalic acid; 4-sulpho-1,8-naphthalic anhydride
		isophthalic acid
		ditridecyl phthalate
		tetrabromophthalic anhydride
		diester/ether diol of tetrabromophthalic anhydride
		di-t-butyl diperoxyphthalate
2918.19	C	malic acid
		benzilic acid and benzilic acid methyl ester

2918.29	C	tetrakis (methylene (3,5-di-tert-butyl-4-hydroxyhydro cinnamate)) methane
		octadecyl-3-(3,5-di-tert-butyl-4-hydroxyphenyl) propionate
		2,3-cresotic acid; m-hydroxybenzoic acid; 2-hydroxybenzoic acid, calcium salt; 1-hydroxy-2-naphthoic acid; 2-hydroxy-1-naphthoic acid; 1-hydroxy-2-naphthoic acid, phenyl ester; a-resorcylic acid; y-resorcylic acid; and 5-sulphosalicylic acid
		gentisic acid
		hydroxycinnanic acid and its salts
		p-hydroxybenzoic acid
		gallic acid
2921.44	C/U	dioctyl diphenylamine
	C	nitrodiphenylamine
2922.50	C	nadolol
2925.19	C	ethylenebis (tetrabromophthalimide)
	C	ethylenebis (dibromonorbornedicarboximide)
	C/U	N-(9-fluorenylmethoxycarbonyloxy) succinimide
2931.00	C/U	monobutyltin trichloride
		methylcyclopentadienyl manganese tricarbonyl
		organo-silicon compounds
		organo-phosphines
		benzene boronic acid (phenyl boronic acid)
		sodium tetraphenyl boron

2932.29	C	2-beta, 6 alpha-di-methyl-8-alpha-(2-methyl-1-oxobutoxy)mevinic acid lactone (mevinolin)
		isoascorbic acid (erythorbic acid)
		isoascorbic acid sodium salt (sodium erythorbate)
2932.90	C	doxepin
		ethyl maltol and maltol
2933.29	C/U	n,n-carbonyl diimidazole
2933.39	C	terfenadine in powder form
2933.59	C	bis(2-dimethylaminoethyl) ether
		5-dimethoxytrityl-n-benzoyl-2-deoxyadenosine
		5-dimethoxytrityl-n-benzoyl-2-deoxyguanosine
		5-dimethoxytrityl-n-isobutryl-2-deoxyguanosine
		5-dimethoxytrityl-thymidine
		2',3'- dideoxyinosine
		2',3'- dideoxycytidine
		2',3'-dideoxy-adenosine
2933.90	C/U	2(2'-hydroxy-3',5'-di-tert-amylphenyl) benzotriazole
		2-(benzotriazol-2-yl)-4,6-bis(methylethyl-1-phenylethyl) phenol
		2-(2'-hydroxy-5'-methylphenyl) benzotriazole
		N-methylpyrrolidone solvent

2934.20	C	2-mercaptobenzothiazyl disulphide or 2,2-thiobisbenzothiazole disulphide
		2-mercaptobenzothiazole and N-(oxydiethylene)benzothiazole-2-sulphenamide
		2-mercaptobenzothiazole sodium salt (2-benzothiazolethiol sodium salt
		N-tert-butylbenzothiazole-2-sulphenamide
		N-cyclohexylbenzothiazole-2-sulphenamide
		2-(morpholinothio) benzothiazole
2934.90	C	3-methyl-2-oxazolidone
2935.00	C	p,p'-oxybis(benzenesulphonylhydrazide)
		N-butylbenzenesulphonamide
		acetazolamide
		methazolamide
2936.90	C	flour enrichment mixtures
2941.90	C	polymixin b sulphate
		neomycin sulphate
		lasalocid sodium
		nystatin
3004.90	C/U	antibacterial cream containing sulfanilamide as the single active ingredient
		antihistaminic agents in tablet form containing terfenadine as the single active ingredient
		anthelmintic based on pyrantel pamoate or morantel tartarate for treating internal parasites in horses and in dairy and feed cattle
		antimicrobial ointments other than sulfonamides for the treatment of vaginal yeast infections in animals
		laxatives for animals

3707.90	C	toners and developers for copiers
		electrostatic toner dispersants
3804.00	C/U	caustic alkali liquid (black liquor)
3823.90	C/U	gas mixtures, i.e. hydrogen sulphide in nitrogen; nitric oxide in nitrogen
		phosphonium salts
3905.90	C	polyvinyl butyral
3911.90	C	polysulphides and polysulphones
3926.90	C	nursing nipples
	C	infant pacifiers
4014.90	C	nursing nipples
	C/U	infant pacifiers
4412.12	C/U	birch plywood doorskins
4418.90	C/U	finger-jointed builders' joinery
	C	edge-glued lumber
4421.90	C/U	finger-jointed lumber
		edge-glued lumber
5402.10	C	high tenacity nylon filament yarns, singles, flat, fully drawn, with producer twist not exceeding 40 turns per metre
		high tenacity aramid filament yarns
5402.20	C	high tenacity polyester filament yarns, singles, flat, fully drawn, with producer twist not exceeding 40 turns per metre

5402.41	C	partially oriented nylon filament yarn
	C/U	nylon filament yarn
	C	aramid filament yarn
5403.43	C	polyester filament yarns, flat, fully drawn, with producer twist not exceeding 40 turns per metre
5402.49	C/U	spandex filament yarns, singles, untwisted
	C	polytetrafluoroethylene filament yarn
5402.51	C	aramid filament yarn
5402.59	C	polytetrafluoroethylene filament yarn
5402.61	C	aramid filament yarn
5402.69	C	polytetrafluoroethylene filament yarn
5407.41	C/U	nylon filament fabrics for typewriter and computer ribbons
5503.10	C/U	aramid staple fibres
5503.90	C	polytetrafluoroethylene staple fibres
		vinyon staple fibres
		polybenzimidazole (PBI) staple fibres
5506.10	C	aramid staple fibres
5506.90	C	polytetrafluoroethylene staple fibres
		vinyon staple fibres
		polybenzimidazole (PBI) staple fibres
5911.10	C	offset printing blankets

5911.90	C/U	packing yarns with fibreglass cores, whether or not incorporating a metal wire, covered with a textile wrapper
6602.00	U	orthopaedic canes and canes for the blind
7019.10	U	fibreglass yarns for use in the manufacture of woven tire fabrics
7019.20	U	fibreglass fabrics for use in the manufacture of tires
7307.11	C/U	threaded tube or pipe fittings
7307.19	C/U	threaded tube or pipe fittings
7322.90	C/U	railway track switch heaters
8204.11	C/U	mechanical automobile jack handles incorporating lug sockets
8301.40	C/U	push button combination door locks
8301.60	C/U	parts for push button combination door locks
8418.61	U	soft ice cream-making machines
8418.69	U	soft ice cream-making machines
8458.99	C	vertical turret lathes
8460.90	C/U	key cutting machinery
8466.93	C/U	parts of key cutting machinery
8477.80	C/U	barrels and cylinders for plastic processing machines
8477.90	C/U	parts of barrels and cylinders for plastic processing machines
8481.80	U	all products of 8481.80 except manually operated; certain wellhead valves
8483.10	C	camshafts and crankshafts except those designed for use solely or principally with spark-ignition internal combustion piston engines or rotary engines
8483.60	U	universal joints
8501.33	U	gear motors

8501.34	U	gear motors
8501.51	U	gear motors
8501.53	U	gear motors
8504.23	C/U	auto-transformers with an individual base MVA exceeding 100 but not exceeding 300, regardless of voltage classification; other transformers with a base MVA exceeding 50 but not exceeding 275, regardless of voltage classification; other transformers, with an individual voltage classification of 765 or greater
8504.90	C/U	bushings and tap changers for the electrical power transformers specified in the product description in 8504.23 above.
8509.40	C/U	food processors and food grinders
8523.13	C	unrecorded video tape, 3/4 inch or greater in width
8525.20	C/U	all products except paging devices
8529.10	C/U	antennas for land mobile transceivers, cellular telephones or radio and television transmitters
8539.21	C/U	all products except lamps for automobiles
8716.39	U	aluminum construction drop centre livestock trailers having a gvw of 11.778 tonnes or more and a length exceeding 12 metres
8903.99	C/U	personal watercraft, being vessels of five metres or less in overall length that are inboard powered, water-jet driven, and designed to be operated while sitting, standing or kneeling on, rather than sitting in, as in conventional vessels
9032.89	C/U	electronic logic panels and accessories for multi zone control
		automatic regulation or control instruments, fan and humidity controls and pneumatically controlled valves

9405.40	C/U	dental lamps
9405.91	C/U	parts of dental lamps
9405.92	C/U	parts of dental lamps
9405.99	C/U	parts of dental lamps
9506.99	C	snowshoes and parts and accessories thereof
9507.30	C/U	closed-face spin casting fishing reels

Mr. SCHULZE. OK, my third and final line of questioning, Mr. Chairman, has to do with the parastatal entities. I am concerned, perhaps prematurely, with the problems which might be faced by U.S. exporters and investors, due to the existence of "Buy Mexican" provisions with the state-owned business entities in Mexico.

Do you have any feeling on these? Clearly, in my opinion, these laws pose significant barriers to U.S. manufacturers and to U.S. penetration. I don't have any easy answer, but it seems to me that it is an area that has to be attacked and has to be probed. I wonder if you have any thoughts on this area?

Mr. WORKMAN. Well, there's no question that those in the past have certainly proved a problem for U.S. investment and U.S. exports, but again, and it's rather remarkable if you look at what the Mexican Government is doing. We have seen progress in the oil industry, for example, which is beginning to open up to U.S. participation and investment. The banking industry, a lot of the banks are moving from, if you will, the public sector into the private sector. In telecommunications, there are two U.S. companies involved very heavily in penetrating into that market.

So there's been some progress and——

Mr. SCHULZE. And, Mr. Workman, I agree that there has been progress, I'm not saying there hasn't. But what I am concerned about is whether our negotiators should be involved with this area and what kind of emphasis we should give on this area? It is an area of my concern and I just want to see if the business community shares that concern?

Mr. WORKMAN. Well, in that respect, I think we should have the same objectives that we have in the GATT on public procurement. I think they are absolutely parallel and I don't really see any disconnection between our objectives in the GATT and our objectives with Mexico.

So, sure, it should be on the table.

Mr. SCHULZE. Mr. Kittredge, do you have any comments?

Mr. KITTREDGE. Well, in our written testimony, we make the comment that on the Government procurement issue, products that meet the rules-of-origin test—the phrase says that an agreement should ensure that Government entities not discriminate against products that meet the rules-of-origin test. So we would strongly recommend to the negotiators, and we will, as we do, that they ought to cover that issue.

Mr. SCHULZE. Well, rules of origin, in the free trade area, is what you're referring to?

Mr. KITTREDGE. Yes.

Mr. SCHULZE. That would require a change in Mexican law, you understand though? So, in other words, what you're saying is that you think the negotiators should push very hard for an agreement in this area, and that it is a very important part of the negotiation?

Mr. KITTREDGE. Yes.

Mr. SCHULZE. Thank you. I'm not trying to put words in your mouth.

Anybody else?

Mr. BAROODY. Mr. Workman has, I think, correctly pointed out and you agreed that the reliance on this in Mexico is declining,

that is progress. But clearly we agree with you that this is an issue of sufficient importance that it has got to be addressed in the negotiations.

Mr. SCHULZE. Thank you.

Thank you, Mr. Chairman.

Chairman GIBBONS. Mr. Pease.

Mr. PEASE. Thank you, Mr. Chairman, and thanks to our witnesses.

Mr. Workman, if I might begin asking you questions? I was interested in your discussion with Congressman Jenkins about the motivation for U.S. companies moving to Mexico. Mr. Jenkins suggested that low wages would be the predominant factor, if not the only one. And you said that there were other economic reasons.

You mentioned access to the Mexican market which, I think certainly, is the reason why a number of American companies locate in Mexico. You also mentioned, I believe, that President Salinas has been opening up the Mexican market and removing some of those barriers, those requirements for production in Mexico or for reexport requirements. So that presumably, in the future, the motivation of having to locate in Mexico in order to get into the market will be somewhat diminished.

Might I ask you, could you elaborate on the other economic reasons that you cited, or that you mentioned earlier why companies would locate in Mexico from current production in the United States, other than low wages?

Mr. WORKMAN. Well, again, obviously as you have already captured my remarks, access to the Mexican market——

Mr. PEASE. Well, let's eliminate access, OK?

Mr. WORKMAN. Even without that, even in a completely free market you would want to have certain facilities to service that market, just as we do in Europe, just as companies have operations in Japan, and Korea, and what have you.

So if you are dealing with a protectionist country, one way that you get into the market is that you invest and you locate. If it is a more free-market-oriented country then you have market share, you have penetrated the market and you want to maintain that market share and you want to service that market, so that you would locate for those reasons.

Mr. PEASE. Are there any others then? In other words, we are still talking about market access, which you mentioned in your response to Mr. Jenkins, and low wages. You said there were other economic reasons. Are there others besides that, that you can mention?

Mr. KERSNER. If I can, Mr. Pease.

Mr. PEASE. I would like Mr. Workman to respond, please.

Mr. WORKMAN. Well, it would seem to me that servicing the market is a pretty comprehensive one. There's a variety of reasons why you would do it. You would want to have an investment there, if you are servicing that market, that is indigenous.

Mr. PEASE. Surely, that's granted, go ahead.

Mr. WORKMAN. OK. You would want to have low wages, that is a part of it. There are certain jobs, that in the larger economic scheme, it is more productive to have them done by a low-wage

base in Mexico than by having a high-wage, high-skilled worker do it.

Mr. PEASE. Well, other than market access and low wages, can you think of any reason why an American company would locate in Mexico, rather than stay in the United States?

Mr. WORKMAN. I thought that pretty much covered the board.

Mr. PEASE. OK, well, that is fine, if it does. You just mentioned other economic reasons and I was wondering what they were.

What about the maquila plants? We have got lots of American companies locating just across the border, and essentially shipping their products back into the United States. They are not interested, particularly, in access to the Mexican market. Is there any reason why American companies locate in the maquila plants, other than low wages, that you can think of?

Mr. WORKMAN. Well, certainly there's a duty preference that's given on the products coming out of a maquila operation. You only apply the duties to the Mexican portion of the product.

Mr. PEASE. Of course, if they stayed in the United States they would not pay any duties at all, so that's a factor that makes it more advantageous to use the low wage labor.

Mr. WORKMAN. Well, that was the original idea of setting up the maquilas and applying the duty preferences available under United States law to allow that to operate. Now, again, you can't just look at it as you are using Mexican workers, and not United States workers to produce a product that you are going to ship back into the United States.

Some of the product that goes into the maquila products comes from solely U.S.-based plants. And the more successful the maquilas are, the more products that you have to use to service those plants from the United States.

Again, I go back to the experience of Arvin Industries, and it's a 15 to 1 ratio of United States exports to imports from Mexico. We think, at the chamber, that that experience is not atypical.

Mr. PEASE. Mr. Workman, would what you said just now apply also in the case of the Sony plant that we visited last year, just outside of Tiajuana? In other words, does that create jobs in the United States, as well, their making TV sets for the American market?

Mr. WORKMAN. Well, it's a Japanese company. It's not——

Mr. PEASE. Yes, and so is there any way that you can think of in which that creates jobs for the American market?

Mr. WORKMAN. What, the operation of a Japanese company in Mexico for the U.S. market?

Mr. PEASE. Yes.

Mr. WORKMAN. Not to my mind, but then it's my recollection that we lost production, with the exception of one U.S. company, of color TV's to Japan 20 or 30 years ago. Then Japan lost it to Korea and Korea lost it to Taiwan, and now it seems to have come back to this continent, in terms of assembling the color televisions.

That production and those jobs went away a long time ago, sir.

Mr. PEASE. Well, I would just like to state for the record, that my own TV set, at home which I bought maybe 2 years ago, is a Japanese television but was assembled in Georgia and provided jobs for Georgia. I would prefer to do that as much as I can.

Mr. Workman, I was pleased to read in your written testimony, that the chamber of commerce recognizes that FTA liberalization could create dislocations and that you support or would support temporary safeguards and adjustment assistance.

You go on to say that existing U.S. law providing such safeguards and assistance should be used to the maximum extent possible.

We have really two programs for adjustment assistance for dislocated workers now. One is the Job Training Partnership Act, which deals chiefly with dislocation, within America, for various reasons. The other one is trade adjustment assistance, which provides for adjustment assistance relating to job losses because of imports from other countries.

The big difference between the Job Training Partnership Act and trade adjustment assistance is that trade adjustment assistance provides funds for the maintenance of the family; to pay for the rent, for food and shelter, and so on; whereas the Job Training Partnership Act does not.

I was wondering if you and the chamber have progressed in your thought far enough to be able to tell me whether the chamber would support—in connection with the United States-Mexico FTA—an adjustment assistance procedure somewhat like trade adjustment assistance, or rather, what you had in mind was just providing training a la the Job Training Partnership Act, but not maintenance funds for the family over a period of time?

Mr. WORKMAN. Well, I think we're pretty straightforward in our statement. We are talking about both trade adjustment assistance and worker training. And that is not something that we have come to only recently. We supported those provisions and the changes to the law in the 1988 trade bill.

So it's something that we recognize. Our companies understand that there is going to be some dislocations, just as there have been dislocations with the Canada Free Trade Agreement. It's in our interest to smooth that transition as much as we possibly can.

Mr. PEASE. Well, I'm delighted to hear that. So you would support a fairly comprehensive adjustment assistance program, similar to the current trade adjustment assistance program, is that correct?

Mr. WORKMAN. That's correct.

Mr. PEASE. Well, good. Thank you, very much.

If I might, Mr. Baroody, just ask you a question or two, not too many.

You indicated that the wage differential was not quite as great in Mexico, as between Mexico and the United States, as sometimes has been indicated. Some of the statistics we have seen in the past have quoted hourly wages only and you use hourly compensation as a somewhat broader term.

Mr. BAROODY. Yes, sir.

Mr. PEASE. And I think the differential is not as great if you look at hourly compensation, than if you just look at wage rates.

You quote a differential of $2.32 for production workers in Mexico compared with $14.31 in the United States, about a 6 to 1 ratio, which is better than strictly wage rates which is 15 to 1 between the two.

You then make the statement, we see no reason to believe that there would be an adverse impact on U.S. wages. Can you tell me how you come to that conclusion?

Mr. BARODY. Yes, sir. The proposition that the free trade agreement would pursue generally, of course, is growth on both sides. That, by itself, we think is going to continue a generalized trend and it is a generalized trend in compensation, towards on the upside for American workers. We see nothing, and I think the ITC, in its study, saw nothing that would jeopardize that general trend.

Mr. PEASE. The general trend goes up as there are more people working. But I would like to focus for a moment on manufacturing wages. Would you be willing to make the same statement regarding manufacturing wages in the United States, that you would see no adverse impact on U.S. manufacturing wages from a United States-Mexico agreement?

Mr. BARODY. Assuming that we see an acceleration, if the free trade agreement is negotiated successfully, of the export trend that we have seen over the last 5 years since Mexico joined the GATT and began some liberalization. That is, assuming we see continued increases in American export activity to Mexico, then, yes, I would say that we would continue to see stability and some growth, on the upside, in manufacturing compensation. Exports would have the tendency of doing that, I think, creating jobs and improving wages there.

Mr. PEASE. I have been concerned for a long time about what happens to the average American production worker. The worker who has a high school education and went to work on the assembly line, and went to work in a garment factory or a textile mill, down in Mr. Jenkins' area, or a steel or auto plant in my area. I am wondering as we shift our lower skilled manufacturing jobs down to Mexico, and rely more on our producing high-technology, high-skilled products, components, what is going to happen to the persons in our work force who are not college graduates and probably never will become college graduates? What do you see in their future?

Mr. BARODY. Well, you just put your finger on what is arguably the biggest challenge this country faces, and certainly manufacturing employers share in that challenge with a special emphasis. The challenge is upgrading skills.

The fact that a worker may be a high school graduate does not mean that he does not have the ability to acquire upgraded skills and our manufacturing members are increasingly aware of, committed to, and expending resources on the upgrading of skills.

You were quite right, Mr. Pease, that that is the future, higher skill demands are the future for the American worker. We are going to have to grapple with that and the answer to it, though, will not be, I think, to try to preserve a greater percentage of low-skilled jobs and the phrase is used to "dumb-down work." We don't want to do that in this country. We want to make more and more people have access to higher wages by ensuring that they have higher skills.

Mr. WORKMAN. Mr. Pease, if I could just add to that? You know, the United States is the only member of the OECD countries that

essentially looks to a high school graduate, and if that person elects not to go to college, says goodbye.

Our educational system doesn't really focus on alternatives to college training, whereas all of our competitors have extensive—I don't want to use the term, trade school, because that has, in some circles, a pejorative sense to it—but certainly craftsmen and tradesmen associations and schools. And that's something that our members are very concerned about and we have been working where the action is, at the school board level, through the State and local chambers. It is a major challenge to American business and to our educational system.

Mr. PEASE. Would you? That's encouraging. The recognition of that is very encouraging to me. You say that your members have been where the action is at the local school board level. Would you see a role at all for the Federal Government in encouraging that sort of training for high school students or graduates who are not going to go on to a traditional college?

Mr. WORKMAN. I don't know, to be honest. Our focus has been—we have, in the college area, arguably the best universities in the world. The focus of our concern has been in the K-12 grades. And, for that, you have to work with the school boards.

We're interested in having high school graduates that can read, that can look at a shop manual, that can operate a piece of sophisticated manufacturing equipment. So that's where our emphasis has been. That's our point.

Mr. PEASE. OK. Mr. Chairman, I am going to take just another minute and then yield my time.

Mr. Baroody, one reason I have raised my line of questioning with you is that we, in Ohio, northern Ohio where I come from, have had a lot of experience over the last 20 years with our factories moving or threatening to move to the southern part of the United States, not to Mexico, but the southern part of the United States for low wages.

And time after time, corporate management has said, we are going to have to move our factory out of Ohio because we can produce cheaper in some other State. Or, they would say to the workers, when contract time came up, we really need to move this plant but we would like to keep the jobs here. We would be willing to do so and able to do so if you workers would take a $2-an-hour pay cut. And I guess, I can't see, if that has happened at the level, within the United States with relatively small disparities between the southern part of the United States and the northern part, I can't see why that wouldn't happen with Mexico in the picture, where United States corporations would say to their workers, we don't want to lay you off but we have to, or we don't want to lay you off but we will, if you are unwilling to take wage concessions.

Mr. BAROODY. Mr. Pease, it seems to me, if I can respond in two ways? First, if low wages were the simple motivation for the free trade agreement or for activities in Mexico by our members, it would seem to me that the last thing that they would want is the free trade agreement, which if it works by anyone's expectations, is likely to increase wages, over time, in Mexico.

They are there now under certain, enjoying certain preferential reentry, or export to the United States statutes, but the real reason

they are there and interested, I think, in staying there and seeing the agreement worked out is not because of the reliance on low wages, but, as has been said earlier, the access to the Mexican market. That is a powerful inducement to go that overwhelms the attraction of lower wages.

The second point would be that—I certainly agree that there was, in the Ohio circumstance, a lot of the kind of situation that you describe. But I would only offer, as a counter to it now, that what seems to be the much happier development in the State of Ohio, that the job situation—and you would know this, obviously, a good deal better than I—has somewhat stabilized precisely because the State of Ohio, beginning with the leadership of the Governor but with the whole State rallying around it, has reoriented its manufacturing process to the export market. And Ohio is now one of the 10 largest exporting States in the country, and I think, has a much more stable economy in many respects, certainly in the employment context included, as a result of that orientation.

Mr. PEASE. Well, I am very pleased with what has been going on in Ohio also but as a part of the readjustment we lost, in my own county with about 100,000 people in the work force, 14,000 jobs, manufacturing jobs and we have not been able to replace anywhere near that number.

Would you grant, Mr. Baroody, finally, that the motivation of American companies, that have located in maquila plants in the last decade or so, was not to penetrate the Mexican market, but was low wages?

Mr. BAROODY. Mr. Pease, to state the obvious, I don't know that anyone's motivation is ever one dimensional. I think that low wages, the lower wage scales were a factor. The hope that perhaps it might provide, if I can call it, a beachhead into the Mexican market or the opportunity to access the Mexican market, I would suggest, was equally a factor.

Mr. PEASE. I won't challenge that statement. It is an opinion on your part, and I respect that.

Thank you, Mr. Chairman.

Chairman GIBBONS. Mr. McGrath.

Mr. MCGRATH. Thank you, Mr. Chairman.

There has been a lot of testimony on the possibility of this agreement and it has generally been among various factors. One, of course, that we have heard a lot about today is the low wage, worker rights, exploitation of the worker issue. Another has been the environmental issue. And some others have tried to bring trade and drugs into the issue. My view is that, as has been testified by you, Mr. Baroody and others, that perhaps, as a result of the agreement, there will be higher wages; there will be less exploitation of the workers; and the environment, if this thing can be negotiated right, will perhaps improve.

What is possibly an argument which has not been touched yet, is one that has been brought up by Mr. Donahue of the AFL-CIO. That is one, of course, that you brought up yourself—access to the Mexican market.

The question is, so what? You have got a Mexican market of people with no money. Even though they are our third largest trading partner and they have increased, I guess, between $52 and $59

billion of trade and services over the last number of years, so what?

What would your reaction be to the question, "what is the rush to get into this free trade agreement with Mexico if they can't buy the goods that we want to export to their large market?" They don't have the money. What's your reaction to that?

Mr. WORKMAN. Well, my initial reaction is, since they are our third largest trading partner somebody must have some money down there to buy this. Our calculations are that 17 cents out of every dollar that a Mexican consumer has, he spends it on a U.S. product. So you are looking at a—what is it, about——

Mr. MCGRATH. But 17 or 18 percent of what? I mean if I were playing Devil's advocate as Tom Donahue has done, 17 percent of what?

Mr. WORKMAN. Well, the gross domestic product for 1990 was on the order of $187 billion. We are not trying to compare Mexico to a $5 trillion economy north of the border.

Mr. MCGRATH. But Tom would say, at least Canada has some money. They could buy our goods. Israel has got some money over there and they can buy our goods. What is the rush in this 6 month period of time—I am trying to lob you a softball here, gents—to rush within 6 months to get a free trade agreement accomplished with Mexico? They don't have any money to buy the goods in an open market anyway, what's the rush?

Mr. KITTREDGE. Well, but if you don't start some time Mexico is never going to be in that position. Mexico has oil and Mexico has gas, and Mexico has been the one Latin American country that has really responded to the efforts to settle their debt problems.

Mr. MCGRATH. Well, oil and gas are off the table.

Mr. KITTREDGE. They are off the table for investment, but that's what they are going to buy things with. I mean you ask the question—and they have got a lot more things that they can buy things with then many other countries do.

Mr. MCGRATH. Go ahead.

Mr. BARODY. Mr. McGrath, I mean the question, so what? We could have said the same thing five years ago or maybe longer ago. Five years ago if we had said it, we might have missed the opportunity to double Mexico's receipt of our exports. It went from $12 to $25 billion. And I mean that suggests that there is capacity in Mexico to purchase American goods and that that capacity will only grow, in the future, as it has in the past.

Mr. MCGRATH. Anybody else want to make a comment?

Mr. KERSNER. I think, Mr. McGrath, you have seen as Mexico has grappled somewhat successfully over the past few years with its inflation problem and its debt problem that their economy is making dramatic strides forward. And their middle class is beginning to develop and that is going to create a huge, large market for the purchase by them of U.S. goods.

You see a company like Pepsi making a decision to make a huge investment in Mexico because they believe people are going to buy their type of candy and softdrink and other consumer products. I think in a very short period of time their investment has paid huge dividends. Why? Because for 25 cents you could start expending money and it will be a ways before they can start buying more ex-

pensive things. But over the past few years they have made dramatic strides in that direction. And all the empirical information supports that.

And in order to hasten that development, the free trade agreement will do just that.

Mr. WORKMAN. One final point, sir, the Mexican population over the next 25 years will increase by 50 percent. Now, that can be a problem or that can be something that we can work with the Mexicans to achieve some benefit. If we can help the Mexican economy, if it can expand, and can help them deal with this population explosion that they are looking at, then it is to both country's benefits.

Mr. MCGRATH. Well, one of the criticisms brought up, among others, is why such haste? When this first was announced with such fanfare it was sort of suggested that should the fast-track apparatus be extended that this agreement could be done within a 6-month period. This becomes a problem for those who would like to take a harder look at this than something that can be agreed to within 6 months.

Is there any great haste to have this agreement accomplished within 6 months or the end of the year? If we gave it an extension of fast-track for 2 years, which would cover us for the GATT, would it really be necessary to adhere to a schedule that has been proposed of 6 months, or at least, by the end of the year? Could not a better agreement be knocked out within 2 years, the time of the extension of the fast-track?

Would not we be able to allay some of the fears of some that we are rushing into something that we have no ability to amend or fix, within 6 months?

Mr. CRANE. Well, Mr. McGrath, I would like to add another thought to the rationale for moving into Mexico. I would like to cite the example of the U.S. toy industry. The U.S. toy industry——

Mr. MCGRATH. Did you say, toy?

Mr. CRANE. U.S. toy industry.

Mr. MCGRATH. T-o-y?

Mr. CRANE. Yes, toy, to a large degree is sourcing its products in the orient. And much of this production has shifted to Mexico, over the last 2 years, and as United States toy companies try to maintain their competitiveness globally, not just in the United States, they have to use a number of economic factors to decide where to source their products.

We talked earlier about wage rates and that's a consideration. Another consideration is the time frames that it takes to deliver products from the Orient to the United States, versus Mexico to the United States and freight costs as well, particularly for high-tech products.

So to the extent that, citing again the U.S. toy industry as an example, to the extent that this industry is selling its products, to a large degree overseas, but to a lesser degree in the United States, having the ability to deliver the product to the U.S. market in a more timely fashion and at a more economical cost is a consideration for moving to Mexico from the Orient.

Mr. MCGRATH. My friends in labor would say for the United States it would be no time lost.

Mr. WORKMAN. The point that you raised about, what's the rush to do this? From our point of view, we are not really interested in 6 months, 12 months, the sooner, the better, but only if we have an agreement that meets the various principles that we have outlined in our testimony.

If they can do that in 6 months, great. If it takes 12 months or 18 months, fine. We are not into buying a pig in the poke.

Mr. MCGRATH. In other words, no agreement is better than a bad agreement?

Mr. WORKMAN. That's correct.

Mr. PEASE. Would the gentleman yield?

Mr. MCGRATH. Certainly.

Mr. PEASE. I would just like to thank the gentleman for his line of questioning and point out that the negotiation of the United States-Canada Free Trade Agreement, according to staff, took almost exactly 2 years for the actual negotiations, themselves. I, also, am puzzled and troubled by what appears to be a rush by USTR to finish this whole thing within 6 months.

Mr. KITTREDGE. Well, with all due respect, could I make one comment on that? Let's get started.

Mr. MCGRATH. Let me ask you one final question and then I will give up my time here. It is my belief that all of the objections to the free trade agreement with Mexico, in terms of environmental concerns, worker rights, and exploitation of workers, can be fixed in a free trade agreement.

Do you believe that will happen or do you think that things will continue as they are today in Mexico? Are we better off with an agreement for those issues or are we better off just leaving it alone?

Mr. BARODY. Mr. McGrath, the history suggests to me that improvements in guarantees of workers conditions, and environmental improvement, as well, are associated with growth, not with the absence of growth. To the extent you believe, as we do, that the free trade agreement will benefit, over time, the Mexican economy and help it to grow, then I believe that, as a consequence of the free trade agreement, those concerns which cannot be ignored will not only be addressed better and more directly and more effectively in the future, but that that will come, in large measure, as a consequence of the fruits of this agreement.

Mr. MCGRATH. I thank the panel for their testimony and I thank the Chairman.

Chairman GIBBONS. Thank you, Mr. McGrath.

Mr. Levin.

Mr. LEVIN. Thank you, Mr. Chairman.

Let me just ask a few questions about the industrial sector. I think this panel has been useful, Mr. Chairman, to help open up these issues. We surely shouldn't be gun-shy about it.

Your responses to concerns, about what the impact of a proposed free trade agreement with Mexico would have on American industry, takes a variety of lines or approaches. And let me ask you a few questions about them.

One relates to wages and Mr. Baroody, you say a few things about that. One is that wage considerations are overwhelmed by others. You use that term. But you know, some economists who support the agreement say that America simply has to adjust to what's happening in Asia, where the Japanese are using lower wage economies as manufacturing bases. That's happening, as you know, in Thailand, and in other places.

They are saying, realistically, that the wage base, the wage rate is important. You minimize it. In your response to Mr. Pease's question, but also in your testimony, you tend to do the same thing. Wages are far from the sole determinant when companies decide on plant locations.

But aren't they a major factor here?

Mr. BAROODY. I certainly don't mean to suggest they are irrelevant, Mr. Levin.

Mr. LEVIN. Well, you come close to that when you say, they are far from the sole determinant, because no one says they are. And when you say, they are overwhelmed, that was your language I think, overwhelmed, you know, what that conjures up is something close to irrelevance.

Mr. BAROODY. Well, then I want to correct that. I clearly don't mean that wage differentials are irrelevant to these kinds of decisions. But I do believe that in the debate surrounding this issue some people have treated the wage differential as the sole determinant. I think that is an overemphasis that needs to be corrected. It is a factor——

Mr. LEVIN. It's a major factor in many cases. Isn't it one of the two—this is why, Mr. Workman, Mr. Pease was asking you this question, because you do the same thing. You seem to be reaching to minimize; that is how you come across to me, and you, likewise, Mr. Baroody. I don't see why we are not, as a nation, realistic about these issues and kind of put the problems on the table and have a discussion of how we are going to address them. Because that does not mean that we should not negotiate, because there are major problems, but it affects how we negotiate.

I mean, why don't you just say straight out, that the differential is a matter of importance in that the wage rate within a country is one of the usually three or four major considerations that are looked at?

I mean it is just reality, isn't it?

Mr. BAROODY. Mr. Levin, with all respect, the word, irrelevant, was your word and not mine.

Mr. LEVIN. Well, your word was overwhelmed.

Mr. BAROODY. I certainly don't suggest that they are.

Mr. LEVIN. Your word was overwhelmed. Do you really believe that wage considerations are overwhelmed by other factors?

Mr. BAROODY. I said that, sir, with respect to a specific context. My testimony did not say that other factors overwhelmed wage considerations in making these determinations. In response to a specific question, I opined that I thought in that particular case they were. I was not making a general statement. There are other factors though that enter into the determination as to location. It may be that the wage factor here will lead to relocations, not United States to Mexico, but Asia to Mexico and that's another re-

alistic factor that we ought to look at when we look at the implications of this agreement.

Mr. LEVIN. But I think that so you don't have it both ways and say——

Mr. BARODY. I'm not trying to, Mr. Levin.

Mr. LEVIN. OK.

Mr. BARODY. I take your point. I really certainly did not mean to suggest that wage differentials are unimportant, that they are, in every case, overwhelmed by other factors, or that they are irrelevant, and I don't think my testimony said that. I just think, that in some cases, they are overstated in their importance.

Mr. LEVIN. And in a sense, you are leading the same direction when you say that the answer to wage rates is growth.

Let me ask you, what is happening to the average manufacturing wage in the United States the last 15 years?

Mr. BARODY. The wage has held roughly constant. Some would argue that it has declined. I think that is arguable. But I believe that total compensation in the manufacturing sector has risen over the decade at least—I'm not sure I can speak to the 15 years—but over the last decade, I believe total compensation has increased in the manufacturing context.

Mr. LEVIN. The wage has——

Mr. BARODY. Wage plus benefits.

Mr. LEVIN. That's in real terms?

Mr. BARODY. Yes, sir.

Mr. LEVIN. Do you know how much?

Mr. BARODY. I do not. My belief is fairly certain on this but I would check for you and be happy to let you know. But I believe the Bureau of Labor Statistics calculation of compensation in manufacturing discloses an increase over the decade.

[The following was subsequently received:]

National Association
of Manufacturers

MICHAEL E. BARODY
Senior Vice President
Policy and Communications

March 6, 1991

The Honorable Sander Levin
The U.S. House of Representatives
323 Cannon House Office Building
Washington, D.C. 20515

Dear Congressman Levin:

During last week's hearing on Mexico trade, we discussed U.S. manufacturing compensation patterns. At that time, I stated it was my belief that U.S. manufacturing compensation had increased over the last ten years and that I would provide you with additional information on this.

According to figures from the Bureau of Labor Statistics, U.S. hourly compensation for overall U.S. manufacturing steadily increased from 1979 through 1989. The Bureau of Labor Statistics data is attached.

I hope this is helpful. Please let me know if I can be of any further assistance.

Sincerely,

Attachment

1331 Pennsylvania Ave., NW.
Suite 1500 - North Lobby
Washington, DC 20004-1703
(202) 637-3113 Fax: (202) 637-3182

U.S. Department of Labor

Bureau of Labor Statistics
441 G Street, N.W.
Washington, D.C. 20212

Reference Number 400

In accordance with your request, enclosed are our latest measures of comparative levels of hourly compensation costs for production workers in total manufacturing and in the manufacturing industries specified in your request.

The measures for total manufacturing are published in periodic Bureau of Labor Statistics (BLS) Reports. There are some limitations associated with the measures for individual manufacturing industries and we have not, therefore, published them. Nevertheless, they may prove useful for your analysis.

Sincerely yours,

Edwin R. Dean

EDWIN R. DEAN
Associate Commissioner for
Productivity and Technology

Enclosure(s)

UNPUBLISHED DATA

HOURLY COMPENSATION COSTS FOR PRODUCTION WORKERS

40 MANUFACTURING INDUSTRIES

34 COUNTRIES, 1975 AND 1979-89

PREPARED BY: U.S. DEPARTMENT OF LABOR, BUREAU OF LABOR STATISTICS,
OFFICE OF PRODUCTIVITY AND TECHNOLOGY, SEPTEMBER 1990.

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HOURLY COMPENSATION COSTS FOR PRODUCTION WORKERS: INDEX U.S. = 100
ALL MANUFACTURING

1975 AND 1979-89

COUNTRY OR AREA	1975	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
UNITED STATES	100	100	100	100	100	100	100	100	100	100	100	100
CANADA	91	84	85	85	87	90	88	83	83	89	98	103
BRAZIL	14	16	14	15	15	10	9	9	11	10	11	12
MEXICO (1)	31	27	30	34	22	15	16	16	11	12	14	16
VENEZUELA	32	31	35	35								
AUSTRALIA	87	82	86	90	85	76	79	63	64	70	81	85
HONG KONG (1)	12	15	15	14	14	12	13	13	14	16	17	19
INDIA	3	4	4	4	3	3	3					
ISRAEL	35	37	39	39	38	40	37	31	39	47	55	54
JAPAN	48	61	57	57	49	51	51	50	70	81	92	88
KOREA	6	12	10	10	10	10	10	10	11	13	18	25
NEW ZEALAND	58	52	54	52	48	43	37	34	42	51	59	55
PAKISTAN	3	4	4	3								
SINGAPORE	13	14	15	17	17	18	20	19	17	17	19	22
SRI LANKA	4	3	2	2	2	2	2	2	2	2		
TAIWAN	6	9	10	11	11	11	11	12	13	17	20	25
AUSTRIA	68	85	87	69	64	62	56	56	78	98	101	95
BELGIUM	101	131	133	104	82	75	69	69	93	112	112	106
DENMARK	99	117	111	87	76	72	64	63	84	109	115	106
FINLAND (1)	72	83	84	74	68	62	61	62	81	100	113	116
FRANCE	71	85	91	74	67	64	58	58	78	93	94	89
GERMANY	100	125	125	97	88	85	75	74	101	126	131	123
GREECE	27	37	38	34	35	31	30	28	31	34	38	38
IRELAND	47	53	60	51	49	46	44	45	59	68	70	66
ITALY	73	79	81	68	62	63	58	56	75	91	93	92
LUXEMBOURG	100	123	122	91	74	67	62	59	80	97	100	
NETHERLANDS	103	126	123	91	84	78	70	69	95	117	117	109
NORWAY	107	115	119	102	93	87	82	82	103	129	136	131
PORTUGAL	25	19	21	19	16	13	12	12	16	19	19	19
SPAIN	41	60	61	52	46	38	37	37	49	59	64	64
SWEDEN	113	126	127	109	87	73	73	75	94	113	121	122
SWITZERLAND	96	117	113	94	90	86	77	75	104	128	130	117
TURKEY	11	12	7	5	4	4	3					
UNITED KINGDOM	52	62	76	66	59	53	48	48	57	67	76	73

(1) INDUSTRY NOTES:
MEXICO: AVERAGE OF SELECTED MANUFACTURING INDUSTRIES.
HONG KONG: AVERAGE OF SELECTED MANUFACTURING INDUSTRIES.
FINLAND: INCLUDING MINING & ELECTRICAL POWER PLANTS.

SEE SEPARATE APPENDIX FOR DEFINITIONS, METHODS, DATA LIMITATIONS, CURRENCY EXCHANGE RATES, AND COUNTRY NOTES.

SOURCE: U.S. BUREAU OF LABOR STATISTICS, SEPTEMBER 1990.

HOURLY COMPENSATION COSTS FOR PRODUCTION WORKERS IN U.S. DOLLARS
ALL MANUFACTURING

1975 AND 1979-89

COUNTRY OR AREA	1975	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
UNITED STATES	6.36	9.02	9.84	10.84	11.64	12.10	12.51	12.96	13.21	13.39	13.85	14.31
CANADA	5.79	7.61	8.37	9.22	10.09	10.85	10.99	10.80	11.00	11.95	13.53	14.72
BRAZIL	.87	1.43	1.38	1.65	1.76	1.24	1.07	1.12	1.47	1.38	1.50	1.72
MEXICO (1)	2.00	2.41	2.96	3.71	2.54	1.85	2.06	2.09	1.50	1.57	1.99	2.32
VENEZUELA	2.03	2.82	3.44	3.78								
AUSTRALIA	5.54	7.42	8.47	9.74	9.92	9.25	9.84	8.14	8.43	9.40	11.28	12.10
HONG KONG (1)	.76	1.31	1.51	1.55	1.66	1.51	1.58	1.73	1.88	2.09	2.40	2.79
INDIA	.19	.37	.44	.42	.39	.41	.42					
ISRAEL	2.25	3.30	3.79	4.18	4.43	4.88	4.65	4.86	5.20	6.34	7.67	7.69
JAPAN	3.05	5.49	5.61	6.18	5.70	6.13	6.34	6.43	9.31	10.83	12.80	12.63
KOREA	.35	1.09	1.03	1.09	1.17	1.24	1.31	1.35	1.45	1.78	2.50	3.57
NEW ZEALAND	3.21	4.71	5.33	5.69	5.62	5.19	4.65	4.47	5.58	6.77	8.19	7.80
PAKISTAN	.21	.38	.35	.37								
SINGAPORE	.84	1.26	1.49	1.79	1.96	2.21	2.46	2.47	2.23	2.31	2.67	3.09
SRI LANKA	.28	.23	.22	.21	.24	.25	.25	.28	.29	.38		
TAIWAN	.40	.79	1.00	1.21	1.24	1.29	1.42	1.58	1.73	2.26	2.82	3.53
AUSTRIA	4.34	7.67	8.56	7.49	7.47	7.49	7.04	7.26	10.28	13.09	13.92	13.59
BELGIUM	6.41	11.82	13.11	11.31	9.49	9.08	8.63	8.92	12.31	15.04	15.54	15.18
DENMARK	6.28	10.58	10.95	9.41	8.88	8.68	8.03	8.13	11.08	14.56	15.86	15.16
FINLAND (1)	4.60	7.45	8.27	8.02	7.97	7.48	7.69	8.08	10.71	13.44	15.62	16.55
FRANCE	4.52	7.69	8.94	8.02	7.85	7.74	7.29	7.52	10.27	12.42	12.96	12.72
GERMANY	6.35	11.29	12.33	10.53	10.28	10.23	9.43	9.56	13.29	16.91	18.11	17.58
GREECE	1.69	3.37	3.73	3.66	4.12	3.76	3.74	3.66	4.07	4.61	5.22	5.48
IRELAND	3.01	4.81	5.88	5.52	5.65	5.60	5.50	5.80	7.81	9.08	9.74	9.42
ITALY	4.65	7.12	8.00	7.39	7.27	7.59	7.25	7.32	9.91	12.14	12.87	13.23
LUXEMBOURG	6.35	11.08	11.98	9.82	8.59	8.12	7.75	7.71	10.63	13.03	13.88	
NETHERLANDS	6.58	11.41	12.06	9.91	9.78	9.49	8.70	8.91	12.57	15.60	16.22	15.54
NORWAY	6.78	10.38	11.68	11.10	10.87	10.54	10.28	10.60	13.55	17.29	18.88	18.73
PORTUGAL	1.58	1.68	2.06	2.04	1.88	1.62	1.45	1.53	2.08	2.51	2.67	2.77
SPAIN	2.59	5.40	5.96	5.62	5.35	4.64	4.58	4.79	6.43	7.86	8.81	9.10
SWEDEN	7.18	11.33	12.51	11.80	10.87	8.89	9.17	9.66	12.43	15.12	16.82	17.52
SWITZERLAND	6.09	10.56	11.09	10.14	10.42	10.46	9.64	9.66	13.76	17.08	17.98	16.70
TURKEY	.70	1.11	.69	.58	.50	.50	.41					
UNITED KINGDOM	3.32	5.61	7.43	7.20	6.82	6.39	5.95	6.19	7.54	8.97	10.46	10.44

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SOURCE: U.S. BUREAU OF LABOR STATISTICS, SEPTEMBER 1990.

HOURLY COMPENSATION COSTS FOR PRODUCTION WORKERS IN NATIONAL CURRENCY
ALL MANUFACTURING

1975 AND 1979-89

COUNTRY OR AREA	1975	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
UNITED STATES	6.36	9.02	9.84	10.84	11.64	12.10	12.51	12.96	13.21	13.39	13.85	14.31
CANADA	5.88	8.91	9.79	11.06	12.45	13.37	14.23	14.75	15.28	15.85	16.65	17.43
BRAZIL	7	39	73	153	316	716	1974	6939	20	54	393	5
MEXICO (1)	25	55	68	91	144	222	345	538	919	2168	4522	5702
VENEZUELA	8.68	12.89	14.77	16.22								
AUSTRALIA	4.24	6.64	7.43	8.47	9.75	10.26	11.19	11.62	12.56	13.40	14.38	15.28
HONG KONG (1)	3.73	6.57	7.50	8.66	10.06	10.97	12.35	13.46	14.64	16.31	18.74	21.79
INDIA	1.55	3.03	3.45	3.66	3.69	4.16	4.75					
ISRAEL	1.44	8.41	19.42	47.72	107.63	274.08	1364.48	4.79	7.74	10.12	12.27	14.73
JAPAN	904	1199	1266	1361	1419	1455	1504	1533	1567	1566	1641	1744
KOREA	169	525	627	743	852	959	1053	1175	1274	1461	1829	2399
NEW ZEALAND	2.65	4.61	5.48	6.55	7.48	7.77	8.05	8.98	10.47	11.42	12.48	13.14
PAKISTAN	2.07	3.71	3.47	3.68								
SINGAPORE	2.00	2.74	3.20	3.78	4.20	4.67	5.25	5.43	4.86	4.87	5.37	6.82
SRI LANKA	1.97	3.54	3.58	3.97	4.99	5.82	6.48	7.58	8.13	8.82		
TAIWAN	15.17	28.49	36.16	44.48	48.43	51.66	56.41	59.62	65.39	72.00	80.51	93.28
AUSTRIA	75.60	102.60	110.63	119.08	127.52	134.57	140.84	150.22	156.86	165.58	171.99	179.87
BELGIUM	235.10	346.66	382.88	418.66	434.66	463.97	498.25	529.47	549.59	562.07	571.73	598.10
DENMARK	36.00	55.62	61.65	66.84	74.10	79.36	83.06	86.18	89.72	99.74	106.92	110.98
FINLAND (1)	16.87	26.85	30.77	34.62	38.31	41.60	46.13	50.04	54.33	59.17	65.49	71.08
FRANCE	19.34	32.71	37.73	43.39	51.66	59.01	63.71	67.53	71.15	74.68	77.26	81.15
GERMANY	15.59	20.70	22.39	23.73	24.96	26.13	26.84	28.13	28.83	30.40	31.81	33.07
GREECE	55	125	159	203	275	331	422	506	570	625	741	890
IRELAND	1.36	2.35	2.86	3.42	3.98	4.48	5.06	5.44	5.83	6.18	6.38	6.65
ITALY	3031	5919	6841	8363	9848	11531	12725	13978	14781	15743	16756	18153
LUXEMBOURG	233	325	350	365	392	415	448	458	475	486	510	
NETHERLANDS	16.59	22.88	23.93	24.64	26.14	27.09	27.93	29.56	30.77	31.60	32.08	32.98
NORWAY	35.34	52.58	57.64	63.60	70.19	76.92	83.88	91.05	100.23	116.54	123.16	129.48
PORTUGAL	40.26	82.29	103.28	125.42	150.69	181.19	213.92	263.64	311.22	354.79	385.93	436.95
SPAIN	149	363	427	517	589	666	736	815	900	970	1026	1078
SWEDEN	29.73	48.57	52.91	59.48	63.31	68.23	75.88	83.12	88.58	95.99	103.24	113.11
SWITZERLAND	15.72	17.57	18.57	19.88	21.19	21.98	22.65	23.71	24.74	25.48	26.33	27.34
TURKEY	10.16	34.48	52.32	64.34	81.94	112.14	151.45					
UNITED KINGDOM	1.49	2.64	3.20	3.56	3.90	4.22	4.45	4.77	5.14	5.47	5.87	6.37

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SOURCE: U.S. BUREAU OF LABOR STATISTICS, SEPTEMBER 1990.

Mr. LEVIN. OK, because, Mr. Kittredge and then maybe Mr. Workman wants to chime in and I will try to be very brief. But this is not a provincial issue.

Mr. Kittredge, you are saying NFTC member companies are sensitive to the possible loss of low-skilled manufacturing jobs. Then you go on, most regard the displacement of low U.S. wage earners is primarily a function of a larger structural problem.

Now, low-skilled manufacturing jobs, so-called, aren't the same as low-wage jobs. And your testimony on page 3 seems to equate it. Much of the displacement in this country has not been low-wage jobs. Do you know some of the data on job displacement in this country? Where have most of the manufacturing jobs been lost and what's been the average wage of those jobs?

Mr. KITTREDGE. I can't answer those specifics, Mr. Levin. What one of the references—and I have been trying to make this point, to Mr. Pease, and to you—is that, as we point out in our testimony, our companies are very concerned about this issue, and the point has been made before that these companies are spending a great deal of time and effort trying to solve the problems.

But as Mr. Pease, himself, said a minute ago, a lot of the problem is north to south within the United States. The structural problems are much greater than what is caused, or would be caused by a Mexican Free Trade Agreement. The size of Mexico relative to the United States problems is very small. And whereas, I would not, in a minute——

Mr. LEVIN. Why are you so sure of that? I mean looking out 10 or 15 years, on what basis, show me the economic or econometric model that leads you to conclude that?

Mr. KITTREDGE. That it would be a small—well, if you just look at one economy versus the other, there is an enormous difference, as you well know, in terms of economies.

Mr. LEVIN. I mean in terms of job location, though. What's been the growth in manufacturing in the maquiladora area in the last 5 years?

Mr. KITTREDGE. Well, it's been substantial. I——

Mr. LEVIN. Right, the rate of growth. Now, why wouldn't that—and again, I think a lot of us press these issues so that they will be at least discussed—why do you make assumptions that that rate of growth won't continue?

Mr. KITTREDGE. Well, I didn't address the growth issue, and your point is a good one. But what I wanted to get in perspective at the moment is that there are structural problems in the United States that are very great compared to what a Mexican Free Trade Agreement would inflict or result in. The other point I wanted to make is that a free trade agreement properly drawn and properly structured will provide, hopefully, for a better relationship as that growth occurs in Mexico versus the United States.

Mr. LEVIN. OK, Mr. Baroody, I think your testimony really reflects some sensitivity to several sectors, including the auto sector, and your concern that unless there were appropriate rules of origin, the American auto sector could be in more trouble.

When you talk about ensuring that the benefits of the agreement accrue primarily to the North American participants, do you mean North American owned, or do you mean North American?

For example, in terms of the transplants that are here in the auto sector, would you have a rule of origin at all differ between transplants and the big three? Or in the auto parts area, let's take auto parts, and the 300 or 400 companies that are here that have come here in the last 5 years from Asia and North American-owned companies, or would you not distinguish that?

Mr. BARODY. I think there would have proportionality depending on their—I'm sorry, I'm not sure how to phrase it—but clearly what we are seeking here is to make sure that companies with no involvement, in the North American economy, cannot now come in under this agreement and take advantage of the liberalized rules. The existence of some operations in America by some foreign-owned companies would have to be dealt with in a way that was equitable. But whether that is the—it is the same treatment that would go to, say the American big three, that's problematic to me.

Mr. LEVIN. Meaning you think that we should think about it?

Mr. BARODY. At least that.

Mr. LEVIN. All right, do you think before the Congress gives fast-track authority for United States-Canadian-Mexico negotiations we ought to have some pretty clear discussions, we, in the Congress, with our negotiators about where they would go on a rule of origin?

Mr. BARODY. Absolutely. I think the rule of origin question is self-evidently important to many of the members of this committee, as it is, to us. I would be surprised if you were not inclined to have those very serious conversations with them in proportion to the importance of the issue.

Mr. LEVIN. So we ought to have some idea of where the negotiations might take us before we approve the negotiations?

I don't mean down to the absolute letter, but some notion of what's in the noodles of our negotiators?

Mr. BARODY. Well, I would be reluctant to suggest to you that you not satisfy yourself and get the answers to any questions you may have, before deciding the fast-track question.

But, clearly, we believe that the fast-track question should be decided in the affirmative, and we believe that we have a pretty good indication from our negotiators now, at least at the level of principle, what they are going to pursue.

The fact that we have a comfort level with that understanding is why we favor the fast track. We would encourage you to take the same position, obviously if you have got questions though, you ought to pursue them and satisfy yourselves before you vote.

Mr. LEVIN. Maybe I better finish. I just wanted to remind ourselves of the experience in the United States-Canada on the very issue of rule of origin issue now. Where there was not agreement, where the negotiators had a different notion than a lot of us in Congress, or at least, they were willing to settle for an agreement that did not have a satisfactory rule of origin in the eyes of most of management, as well as, labor. This is not a management/labor issue. And we are still talking with Canada, getting nowhere. And the notion, that is expressed in Mr. Cuza's testimony, that when we grant fast-track authority we are not really changing the rules very much or the negotiating stance, or power relationships be-

tween the Executive and Congress, in that instance, and others, just turned out to be wrong.

And again, I think we ought to be honest with ourselves and realistic. Fast-track isn't just a matter of time table.

Chairman GIBBONS. Mr. Dorgan.

Mr. DORGAN. Mr. Chairman, thank you, very much.

I had some meetings earlier this morning and missed most of the prepared testimony. I had a chance to browse through part of it here. I wanted to follow up on the question asked by Mr. Levin, just briefly.

I expressed at the previous hearings that we have held on this subject, that I have a more abiding interest at the moment in the Uruguay round of GATT and some agricultural concerns. But Mr. Levin asked a question about the manufacturing sector and specifically about the maquiladora plants in Mexico and the growth of that activity on the border. Can anyone give me some information about that growth, and what that's expected to be in the future?

Mr. KITTREDGE. You mean statistics? No. We can provide them to you, obviously.

Mr. KERSNER. There has just been a Commission study that has been completed on the maquila program both with Mexico and worldwide, and we would be happy to send a copy of that study to you. And that study would show, Mr. Dorgan, that there has been growth worldwide in the program and there has been some growth with respect to Mexico over the past few years, and that growth has been in the textile sector and in the electronic sector. And that the general sense is that that program has benefited the United States because without the program full manufacturing functions would have left the United States and gone to Asia, predominantly, and we would have lost all the jobs, rather than saving a large portion and enabling U.S. industry to grow with the Mexican partner.

I think that with respect to the long-term prospects of that particular industry, under a free trade agreement, some people say that there would be less of a necessity for it, because the preferential tariff treatment would just, that aspect of it would diminish under a free trade agreement.

Mr. KITTREDGE. I might add to that, I understand that Congress has mandated periodic studies of the maquila operations and so far the results have been that they have not had an effect on U.S. jobs. I have not seen the study, but I understand that Congress had mandated that those studies be made.

Mr. DORGAN. I have seen some data on the maquiladora activities, and it suggests that there has been a rather substantial amount of growth in the maquiladora plants and in a relatively short period of time. I ask the question, not because I think that we should close our borders or not have free trade agreements. The questions that you are hearing from people here do not represent some basic knee-jerk protectionist inclination, it is to try to understand what are the full consequences of what we do, where will there be dislocations, and how should we respond to them?

And more specifically, what should our trade strategy be, particularly with respect to production decisions one would expect a fair amount of production to move from a high-wage area to a low-wage area, all other things being equal.

And from a broader economic perspective, not just this particular issue, but you wonder what happens in the long term in this world, if production decisions are made by economic entities who circle the globe and look for the lowest possible cost for that production and those jobs that relatively low wages produce, and the income that used to be available from the labor to produce is no longer available because those folks did not produce it. It is no longer available to move that from the shelves then when it is for sale.

I am just wondering, in the long term, where all of this stops and how we deal with it?

Mr. Kittredge.

Mr. KITTREDGE. Well, I just wanted to concur with what you say and make the point that it is a very complex question as to why U.S. industry makes the decisions they make on sourcing, on technology, on where they locate their plants. A whole myriad of questions arise—as you point out, not just the labor decision. It is particularly, nowadays, very much a global competitiveness issue, and it is very hard just to say what does the wage rate in Mexico or a 10-percent increase in maquila operations mean to the overall situation—it is very complex, as I am sure you appreciate.

Mr. WORKMAN. If I could just be perfectly blunt—some have suggested that we are trying to skirt the issue of wages—there are some jobs in the United States that over the next 5 to 10 to 15 years are going to disappear. I mean that is an economic fact of life, those jobs are going to go to maybe Latin America, maybe to Asia, maybe to Europe, and everybody should understand that.

It seems to us that it is in our interests, if you are talking about a trade strategy, to try to focus on retaining and expanding those high-skill, high value added, high-wage jobs here in the United States. Our strengths are in management, in high-technology, in sophisticated manufacturing. We should play to our strengths.

So, a set of public policies that we put in place that focus on expanding that universe of, again, high-skill, high value added, high-wage jobs I think is in our collective interest.

Mr. DORGAN. I appreciate that comment. You know, many of the countries with which we deal around the world, many of our allies have managed trade economies and have a specific kind of national strategy in which there is a partnership between their government and their private sector that represents a strategy that they have decided symbolizes their own economic well-being, their own long-term vital economic interests.

It is hard for me to discern that we have developed a similar type of strategy, and we probably should. Some suggest that is unhealthy. I guess my sense is that we ought to take a look at 5, 10, 15, 20 years out and try and understand what represents our vital economic interests in the long term.

Should we just say let's allow the market to determine which jobs we lose in the long term, and any jobs we lose represent an acceptable loss from the American long-term economic standpoint? Some would say that is the correct approach and others say that we are inevitably going to lose some jobs, but that we ought to define certain areas of economic vital interests that are important for the long term of this country and try and develop strategies that nurture and maintain those areas of activity.

Mr. WORKMAN. We are talking about industrial policy, essentially, and I would like to just quote what our chairman of the board, Mr. Baker, responded to Senator Bentsen and Senator Riegle on the same subject. He said sometimes it is said that we do not want an industrial policy in this country, but we do have one, whether we want it or not. We have one by default and it is not a very good one. So, that sort of sums up my institution's views on the issue.

Mr. DORGAN. But I do not discern that there is such a policy, even one that does not work. My impression is that we do not have such a policy.

Mr. WORKMAN. Our impression is that maybe we want to call it something else, but from a company's point of view, they have to deal with a whole lot of policies that in many instances seem wrong-headed and disjointed.

Mr. DORGAN. Let me frame the question just slightly differently, finally. You indicate that there are certain jobs that will be lost, certain other jobs created as a result of the United States-Mexico Free Trade Agreement, and that such an agreement would be a win-win agreement, and I understand that contention.

You say that certain kinds of jobs will be lost. In the hypothetical, if we were talking about some other agreement, are there certain jobs that could be lost in certain kinds of trade agreements that would cause you problems, in terms of analyzing our long-term economic vital interests, or does it not matter which jobs are lost? Are there some that are more important than others in various sectors in this country, some that are necessary for us to develop a strategy to try to retain?

Mr. WORKMAN. I think, as a matter of interest for our companies and for our country to compete internationally, we do not want to do anything that is going to export high-value, high-skill, high-wage jobs. That is not in anybody's interest.

So, if a free trade agreement emerged and one of the consequences of it is exactly that, then I would think that our companies would have a lot of problems buying into that kind of an agreement, because they need those kinds of workers, those kinds of jobs in order to compete internationally, and they need them here.

Mr. DORGAN. Again, I apologize for missing the earlier part of your presentation, but I have had a chance to look through the testimony and it is very useful for the committee. I thank all of you very much.

Chairman GIBBONS. I want to thank you, too. You have done a wonderful job.

We will call our next panel now: Council of the Americas, Hon. Thomas O. Enders, chairman, Investment Committee; Caribbean/Latin American Action, Frederick H. Brooks; and Canada-United States Business Association, Kim Johnson.

I want to say to Ms. Johnson, as she comes to the table, that we have enjoyed the hospitality of the Johnson family in Canada and in Florida and we welcome you to this discussion.

Tom Enders, it is good to see you here. I congratulate you for your fine public service. Mr. Enders, we will start first with you, and then go to Mr. Brooks and then to Ms. Johnson.

STATEMENT OF HON. THOMAS O. ENDERS, CHAIRMAN, INVESTMENT COMMITTEE, COUNCIL OF THE AMERICAS, ON BEHALF OF UNITED STATES COUNCIL OF THE MEXICO-UNITED STATES BUSINESS COMMITTEE; AND MANAGING DIRECTOR, CORPORATE FINANCE, SALOMON BROS., INC.

Mr. ENDERS. Thank you very much, Mr. Chairman. It is a great pleasure to be back testifying before you, as I have on a number of occasions before the distinguished members of the committee.

My name is Tom Enders. I am a managing director at Salomon Brothers, Inc., which is an investment bank, and I am appearing here on behalf of the United States Council of the Mexican-United States Business Committee, a committee of the Council of the Americas and the oldest binational organization representing both Mexican and United States companies.

On our side of the committee, we have some 57 members who represent a very broad range of the U.S business sector—automobiles, chemicals, computers, construction equipment, financial services, food and beverages, pharmaceuticals and telecommunications—and I am giving the committee a list of our members with this testimony.

Mr. Chairman, I will try to be very brief and direct. The United States Council strongly endorses the decision to conduct free trade negotiations with Mexico. We think a wide-ranging liberalization of barriers to trade and investment can give American workers and American entrepreneurs substantial new opportunities, as well as help Mexico.

We think that the experience of the last 5 years shows what liberalization can do. Mexico cut its average tariff by more than half and eliminated most of its nontariff barriers. Our exports more than doubled, to $28 billion, and our market penetration moved up from 60 to 70 percent. That has created an estimated 400,000 new American jobs.

We think that successful conclusion of a free trade agreement can consolidate and extend this exporting opportunity. United States exporters would then not only have the advantages of proximity and market knowledge, but actual tariff preferences, vis-a-vis foreign competitors other than Canadians.

Most of the companies in our council are exporters to Mexico, as well as investors in Mexico. They know what this opportunity can mean from experience. They expect to do more selling to Mexico as a result of free trade, as well as more investing, and find the two closely related.

Take the case of one of our members, which is Procter & Gamble. They now employ a little more than 3,000 people in Mexico. They do think they are going to employ more with free trade, but the demand for goods and services within the company will go up so much that Proctor & Gamble anticipates that it will add 2,000 new U.S. jobs to the 1,500 already supported by sales to Mexico.

Mr. Chairman, we have tried to test this kind of direct company information against a comprehensive economic model constructed and applied by the independent accounting firm KPMG Peat Marwick. It is a big model, 14,000 equations, 44 distinct sectors, both

sides of the border, and I would like to provide the committee with a copy of the results, if I could.

Chairman GIBBONS. Without objection, we will include that in the record.

Mr. ENDERS. The results are interesting. What the model shows is that the simple removal of trade barriers does not have a great impact on the United States. That is because our economy is a lot larger, it is some 25 times bigger than Mexico's, but it is also because a lot of goods come into the United States already at low or zero levels of tariff and protection, because of the maquiladora program, because of the generalized system of preferences, or, in general, low United States protection.

On the export side, of course, many Mexican tariffs and nontariff barriers are now low, as a result of the massive liberalization of the last 5 years. This is essentially the kind of conclusion that the International Trade Commission study shows.

In a few sectors, our study indicates—and we highlight sugar refining and apparel—there are impacts on U.S. levels of employment, but with phasing of the annual impact could be kept quite small. But sizable benefits accrue to the United States and to Mexico, only if you make the further assumption that capital flows into Mexico to take advantage of free trade opportunities and that the Mexican Government facilitates that by eliminating current barriers to foreign investment and establishing a competitive set of rules for foreign investment.

At present, they limit foreign investment in petrochemicals, computers, financial services and automobiles, interestingly enough, all capital-intensive areas.

With free trade, if you remove these investment constraints, the study estimates that as much as $25 billion additional capital would flow into Mexico. A lot of that, we think, would be money repatriated by Mexicans. Some would be direct investment by U.S. firms. The key, of course, is that most of it, some two-thirds on the current form, would be spent in buying goods in the United States.

I think, Mr. Chairman, that is a lot of new potential business.

A couple of other things stand out in this study. Once you get through with all of the adjustments, overall demand for U.S. labor would be higher, not lower. That is the "steady state" result not counting the many additional United States jobs to be created along the way, if there is, as we predict, an investment boom in Mexico as it adopts to free trade, and the steady state trade balance with the whole world, not with Mexico, improves.

The study highlights the importance of the automobile sector. Mexico now limits the total value of cars automotive manufacturers can import, requires them to generate a certain amount of foreign exchange. Every time they import a dollar's worth of auto parts, right at the moment—these things are going to be phased down somewhat—you import a dollar's worth of auto parts into Mexico and you have got to export $2.50 of auto parts. Release of these constraints, we think, would have a significant positive impact on U.S. jobs and exports.

Another area of potential important impact is intellectual property. Mexico has pledged to enact a new law strengthening protection. While the proposed legislation is a welcome major step in the

right direction, the new law has several deficiencies we hope the negotiators will address.

First, commercial benefits to pharmaceutical producers would not be available until at least 1997. Second, the proposed law permits parallel importation, meaning that pirated pharmaceutical products could continue to be imported, even if local manufacture would be prohibited. And third, production registration information does not appear to be protected under the new law.

Clearly, an effective FTA would need to establish strong rules of origin, common concepts governing trade remedy laws, and a similar approach to dumping and subsidies.

Mr. Chairman, one of the most commonly heard concerns about free trade is that it would encourage U.S. firms to run away, run away from U.S. labor standards and environmental controls. But remember that they can do that now. Both the ITC study and the one that we have commissioned shows that the mere removal of trade barriers does not change much of the incentives for that.

Some of the critics of free trade have warned us also that if we end up by facilitating investment in Mexico through the rules governing investment in a free trade area agreement, that that is going to stimulate further flight of companies from this country.

I do not think that if a company is determined to move out of the United States, it is going to really be deterred because there are investment restrictions in Mexico. If it does not like Mexico, it is going to go to Indonesia or Bangladesh. Indeed, I think that you can argue that a close relationship with the United States would have a positive impact on this problem. Increased exchanges with the United States would expand knowledge of our standards and the influence of our standards, and a booming Mexico is much more likely to apply its environmental and labor protection laws well than a stagnant one.

One final point: We hope a broad free trade and investment agreement is negotiable with Mexico and Canada, but, of course, we do not know. If we try to do it without the fast track, we will never know. You would never be able to get the whole Mexican position out on the table. They would always hold back, expecting another bite at the apple, and so you Members of Congress could never get to the point of making the determination that it is your constitutional requirement to do, whether the idea is in the national interest or not.

Thus, the United States Council asks you to approve fast track and its use in negotiating with Mexico. We recommend that you emphasize investment, as well as trade objectives. Opportunities like this one, to realize major benefits for United States citizens, while helping our neighbors grow and develop, do not come along very often. We hope we take this one.

Thank you, sir.

[The prepared statement and KPMG Peat Marwick report referred to follow:]

U.S. COUNCIL OF THE
MEXICO-U.S. BUSINESS COMMITTEE

SPONSORS: COUNCIL OF THE AMERICAS • CHAMBER OF COMMERCE OF THE UNITED STATES • AMERICAN CHAMBER OF COMMERCE OF MEXICO, A.C.

STATEMENT OF AMBASSADOR THOMAS O. ENDERS
REPRESENTING THE
U.S. COUNCIL OF THE MEXICO-U.S. BUSINESS COMMITTEE

HEARING ON FREE TRADE NEGOTIATIONS WITH MEXICO

SUBCOMMITTEE ON TRADE
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

FEBRUARY 28, 1991

Mr. Chairman and distinguished members of the Committee, my name is Thomas Enders and I am Managing Director of Salomon Brothers Inc, an investment banking firm. Thank you for allowing me to testify this afternoon on the proposed U.S.-Mexico Free Trade Agreement.

I am appearing on behalf of the U.S. Council of the Mexico-U.S. Business Committee, a committee of the Council of the Americas and the oldest binational business organization representing both U.S. and Mexican companies. The U.S. Council has 57 members who represent a broad range of American business sectors, including: autos, chemicals, computers, construction equipment, financial services, food and beverages, pharmaceuticals, and telecommunications. I submit with my testimony this morning a list of our members.

Let me be brief and to the point.

- The U.S. Council strongly endorses the decision to conduct free trade negotiations with Mexico.

- We think a wide-ranging liberalization of barriers to trade and investment can give American workers and entrepreneurs substantial new opportunities, as well as help Mexico.

- Experience of the last five years shows what liberalization can do. Mexico cut its average tariff by more than half and eliminated most non-tariff barriers. Our exports more than doubled to $28 billion, and our market penetration moved up from 60 percent to 70 percent. That has created an estimated 400,000 new American jobs.

- Successful conclusion of an FTA can consolidate and extend this exporting opportunity. U.S. exporters would then have not only the advantages of proximity and market knowledge, but actual tariff preference vis-a-vis foreign competition other than Canadian.

- Most of the companies in our Council are exporters to Mexico as well as investors in Mexico. They know what this opportunity can mean from direct experience. They expect to do more selling in Mexico as a result of free trade, and more investing -- and find the two closely related. Take the case of Procter and Gamble. They now employ 3,000-plus people in Mexico and expect to add more if the FTA goes through. But the demand for goods and services within the company will go up so much that P&G anticipates adding 2,000 new U.S. jobs to the 1,500 already supported by sales to Mexico.

- We have tested this kind of direct company information against a comprehensive economic model constructed and applied by the independent accounting firm KPMG Peat Marwick. The model is big -- 14,000 equations and 44 distinct sectors, covering both countries. I will provide a copy of the full report to the Committee. The results are interesting.

- Simple removal of trade barriers, the study concludes, does not have much impact on the U.S. That is because our economy is so much larger - 25 times - than Mexico's. Also, most goods already come into the U.S. at low or zero levels, because of the maquiladora program, the Generalized System of Preferences, or low normal statutory rates. On the export side, many Mexican tariffs and non-tariff barriers are now low as a result of massive liberalization in the last five years. This, by the way, is essentially what the International Trade Commission study shows.

- A few sectors -- the study highlights sugar refining and apparel -- are affected. With phasing, the annual impact could be kept small.

- Sizable benefits accrue to us (and to Mexico) only if you make the further assumption that capital flows into Mexico to take advantage of free trade opportunities, and that the Mexican government facilitates that by eliminating current barriers to foreign investment, and establishing a competitive set of rules for foreign investment. At present, Mexico limits foreign investment in petrochemicals, computers, financial services and automobiles.

- With free trade, and if you remove these investment constraints, the study estimates that as much as $25 billion additional capital would flow into Mexico. A lot of that would be money repatriated by Mexicans. Some would be new direct investment by U.S. firms. The key, of course, is that most of it -- two thirds, on current form -- would be spent in buying goods in the U.S. That is a lot of new business.

- A couple of other things stand out in the study. Once you get through all the adjustments, overall demand for U.S. labor would be higher, not lower. That is the "steady state" result not counting the many additional U.S. jobs to be created along the way by the investment boom as Mexico adapts to free trade. And our steady state trade balance with the world -- if not with Mexico -- improves.

- The study highlights the importance of the automotive sector. Mexico limits the total value of cars automotive manufacturers can import, requires them to generate a certain amount of foreign exchange (more than one to one) for each dollar of parts they import, and limits investors to minority shares. Release of these constraints would have a significant positive impact on U.S. jobs and exports.

- Another area of potential important impact is intellectual property. Mexico has pledged to enact a new law strengthening protection. While the proposed legislation is a welcome, major step in the right direction, the new law has three deficiencies we hope negotiators will address. First, commercial benefits to pharmaceutical producers would not be available until at least 1997. Second, the proposed law permits parallel importation, meaning that pirated pharmaceutical products could continue to be imported, even if local manufacture would be prohibited. And third, production registration information does not appear to be protected under the new law.

- An effective FTA would need to establish strong rules of origin, common concepts governing trade remedy laws, a similar approach to dumping and subsidies, better access to government procurement, and a reliable dispute settlement mechanism. The agreement should move us closer toward harmonization or mutual recognition of technical standards which currently act as non-tariff barriers in many sectors. Some of these barriers are created by environmental standards, fruit and vegetable sanitary standards and product safety standards which are not always scientifically and uniformly applied. Harmonization of customs operations and improvement of border practices, communication and transportation should also be addressed.

- One of the most commonly heard concerns about free trade is that is will encourage U.S. firms to run away - run away from U.S. labor standards and environmental controls. But remember that they can do that now. Both the ITC study and this one commissioned by us shows that the mer removal of trade barriers does not change much in most sectors.

- But, critics warn, by facilitating investment an FTA could stimulate the flight. I do not really believe that a company that wants to run away is going to be deterred by Mexican investment restrictions. If it doesn't like it in Mexico, it goes to Bangladesh or Indonesia. I think the FTA can have a positive impact on this problem. Increased exchanges with the U.S. will expand knowledge of and the influence of U.S. standards. And a booming Mexico is much more likely to apply its environmental and labor protection laws well than a stagnant one.

- The same goes for concerns about wage levels. Many Mexican workers earn a tenth of their U.S. counterparts. We know that generally they are also much less productive. But clearly in some areas -- such as assembly of light manufactured goods -- the mix of wages and productivity offered in Mexico is competitive. We have already recognized that in the maquiladora system, and moved to make these areas available to U.S. industry. An FTA would expand the scope for such arrangements, but the additional impact is not likely to be large, once again as both the ITC and Peat Marwick studies show.

- One final point. We hope a broad free trade and investment agreement is negotiable with Mexico and Canada, but we do not know. If we try to do it without Fast Track, we will never know. You would never be able to get the whole Mexican position out on the table, they would always hold back, expecting another bite at the apple. And so you, Members of Congress, could never get to making the determination of whether the idea is in the national interest or not.

- Thus, the U.S. Council asks you to approve Fast Track and its use in negotiating with Mexico. We recommend you emphasize investment as well as trade objectives. Opportunities like this one, to realize major benefits for U.S. citizens, while helping our neighbors grow and develop, do not come along very often. Let's seize it. Thank you.

EXECUTIVE SUMMARY

ANALYSIS OF ECONOMIC EFFECTS OF A FREE TRADE AREA

BETWEEN THE UNITED STATES AND MEXICO

SUMMARY OF EFFECTS

The free trade area (FTA) will increase the economic efficiency of production, and thus the competitiveness in international trade, of both economies. The result is that both countries will improve their position on all the major economic indicators. Specifically:

- An FTA will increase demand for U.S. and Mexican labor adding to the income of workers in both countries.
- An FTA will have a positive impact on the U.S. economy.
- An FTA will have a substantial positive impact on the Mexican economy. Both real income and employment are expected to increase.
- An FTA will improve the trade balance of both countries vis-a-vis all trading partners.
- An FTA will slightly increase the total return on U.S. capital investment.
- An FTA will increase the total return on Mexican capital investment and will lead to significant additional savings and investment in Mexico.
- An FTA will reduce the price U.S. purchasers pay for imports from Mexico.
- An FTA will increase the price U.S. and Mexican producers receive for their exports.

THE CONTEXT

Mexico has substantially liberalized its economy and its trade regime since 1985. Since 1985 the average tariff has been reduced by more than half from a 16.9 percent rate to an 8.2 percent rate. Import quotas have been largely eliminated; on a tariff equivalent basis they have gone from 7.4 percent to 0.3 percent. Non-tariff non-quota barriers have also been significantly reduced though these are difficult to quantify.

The U.S. economy is more than twenty-six times the size of the Mexican economy. As a result, the improvements for the United States which result from a free trade area with Mexico will be quite modest. Nonetheless, the FTA will serve vital U.S. interests.

THE PROSPECTS

An FTA will assure further liberalization of the Mexican economy in the near term and will increase the chances that the liberalization will be permanent. The FTA will reward the reforms by providing greater economic growth in Mexico. Further, it will encourage Mexico to continue to pursue market oriented policies that are likely to lead to even higher growth rates. Since the United States provides 73 percent of Mexico's imports, higher growth rates would lead to increased U.S. exports.

The estimates of the positive trade effects of the FTA provided by the Policy Economics Group of KPMG Peat Marwick are quite conservative since they do not capture the increases in efficiency which will result from reducing or eliminating

restrictions on foreign investment and management. The estimates also do not capture the trade impacts of eliminating the remaining non-tariff non-quota trade barriers which are quite significant in some sectors. As additional information is provided, we will update our estimates.

By adding significantly to employment in Mexico, an FTA is likely to reduce pressure for Mexican workers to go North in search of work.

THE PROSPECTS FOR THE ADVERSELY AFFECTED SECTORS

While the overall impacts are quite positive for both the United States and Mexico there are some sectors that are affected adversely to a small degree in the United States. Like the FTA with Canada, however, any FTA with Mexico is likely to be phased in over a period of ten years or more with the longest adjustment periods reserved for the sectors which will be adversely affected.

Overall U.S. labor gains from the FTA, and the adverse effects in specific sectors are very small. These effects, in combination with the long phase-in period, mean that the total impact of a fully implemented FTA in the sector with the most employment loss (Apparel) would average fewer than five-hundred jobs per year, the equivalent of four hundredths of one percent of sectoral employment per year.

For the sector with the highest percentage employment loss, (Sugar Refining) the loss would be less than one quarter of one percent per year and the average employment loss 170 jobs per year.

CONCLUSION

Clearly, the overall impacts and long-term effects of a bilateral FTA with Mexico would be positive for both countries. The long run gains from increased efficiency will serve the interests of the United States and Mexico both in our domestic markets and worldwide. Together we will be more competitive than either of us can be without the other.

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THE EFFECTS OF A FREE TRADE AGREEMENT BETWEEN THE U.S. AND MEXICO

EXECUTIVE SUMMARY

Prepared for:

U.S. Council of the Mexico - U.S. Business Committee

Prepared by:

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February 27, 1991

EXECUTIVE SUMMARY

The Policy Economics Group of KPMG Peat Marwick was engaged by the U. S. Council of the Mexico - U.S. Business Committee to analyze the economic effects of a Free Trade Agreement (FTA) between the United States and Mexico. This report summarizes the results of the analysis and provides a brief description of the data, assumptions and methodology underlying the analysis.

An FTA between the United States and Mexico will consider a wide range of trade barriers. From the point of view of the United States these issues would include the elimination of tariffs, import fees, quantitative restrictions carried out through import licensing, and restrictions on direct foreign investment. Mexico's primary objective would be a reduction in U.S. tariffs and the elimination of quantitative restrictions on Mexican products.

The removal or relaxation of each of these restrictions will affect the economies of both countries. The effect of these barriers is to provide protection for certain sectors in both the United States and Mexico. Removing these barriers will result in increased trade between the two countries, a change that will have a significant effect on resource allocation in the Mexican economy. Consumers and producers in the U.S. will pay lower prices for imports from Mexico, and producers in both countries will receive higher prices for exports to the other country. Resources in each country would be reallocated from protected sectors to other sectors, resulting in a more efficient allocation of resources and an increase in the welfare of residents in both countries.

The analysis is designed to compare the economies of the two countries with and without an FTA. The comparison is centered around 1988, the most recent year for which a full set of data on the two countries is available. This is a static comparison that does not take into account any dynamic gains that could result from an FTA. That is, it does not account for the fact that a more efficient allocation of resources could lead to higher growth rates.

Given other trade agreements, and in particular the recent trade agreement between the United States and Canada, it is reasonable to expect that an FTA between Mexico and the United States may not be complete in coverage; certain sectors or activities may not be included in it. In addition, an FTA may include numerous phase-ins of the reduction in tariffs and other trade barriers. The Policy Economics Group's analysis compares the structure of the two economies as they were in 1988, to what they would have been under a fully realized FTA in 1988. A fully realized FTA means that the FTA is completely phased-in and has been in place for a sufficient period of time for both economies to adjust to it completely. This adjustment would take at least ten years.

While it is reasonable to assume that it may take at least ten years for both economies to adjust to the FTA, the analysis abstracts from the timing of these adjustments and deals solely with the effects on the economies after full adjustment has occurred.

This summary is divided into three parts. The first part describes the general framework of the analysis. The second part describes the trade flows and the trade barriers that currently exist between the United States and Mexico. The third part describes the findings of the analysis.

Framework of the Analysis

Increasingly, analyses of issues such as trade agreements are being conducted using a general equilibrium approach. This application incorporates the development of a multisectoral computable general equilibrium model (CGE) of both the U.S. and Mexican economies, linked through bilateral sectoral trade flows.

The CGE model is essentially a micro-economic simulation model that captures the interaction of various actors in the economy including households, firms, government, and the rest of the world. In the standard CGE model, firms maximize their profits given their production technologies. Households save a portion of their income and spend the rest on the purchase of goods and services, so as to maximize their satisfaction from consumption. The actors make optimal decisions according to the prices they encounter in the marketplace and prices adjust until all markets clear and the economy is in equilibrium.

CGE models have three main components. The first component is the data base that represents the circular flow of incomes and expenditures among firms, households, government, and the rest of the world. Detailed data were collected for both the United States and Mexico and reconciled into a consistent set of accounts for both countries.

For households, data was collected on consumption patterns, savings, and employment. For firms, the data base is aggregated into forty-four sectors. For each sector, information was obtained on the origin of purchases of intermediate goods. Particular attention was paid to whether purchases (by consumers and producers) were supplied by domestic producers, imported from the trading partner (United States or Mexico) or imported from the rest of the world.

The second part of the model describes the behavioral responses of households and firms to changes in prices, sets the budget constraints of the actors and defines the equilibrium conditions. Historical data for both the United States and Mexico were gathered to estimate these relationships. Estimated relationships include the responsiveness of consumers to changes in prices and their income, and of firms to changes in the prices of intermediate goods and factors of production.

The third part of the model is the computer software for the solution algorithm.

Trade Flows and Trade Barriers Between the United States and Mexico

To understand the potential effects of an FTA between the United States and Mexico, it is useful to look at the relative size of the two economies and the trade flows between the two countries. The Mexican economy is very small relative to the United States. Measured in terms of Gross Domestic Product (GDP), the Mexican economy is less than four percent of the United States economy. Given the wide difference in the size of the two economies, it should not be surprising that U.S. - Mexico trade flows are much more important to the Mexican economy than to the U.S. economy.

Table 1 shows various aggregate measures that illustrate the importance of trade between the two countries to their respective economies. The first measure shows exports to the trading partner as a percent of total exports. Mexico is the United States' third largest trading partner, but still only accounts for slightly less than 6 percent of total U.S. exports. The Mexican export sector, however, is very dependent on the United States; more than 80 percent of Mexican exports are sent to the United States.

Similar shares are shown regarding imports; U.S. imports from Mexico are about 6 percent of total U.S. imports, while Mexican imports from the United States are about 73 percent of total Mexican imports.

An important component of the trade flows between the United States and Mexico is through "maquiladoras" which are located in Mexico, primarily near the U.S. border. The majority of these facilities are wholly U.S. owned and are granted special treatment under the tax laws of both the United States and Mexico. U.S. companies send components to maquiladoras for assembly and re-export finished products back to the U.S. Mexico fully exempts the components from import duties. When re-exported to the United States as finished goods, the United States imposes import duties only on the value added in Mexico. In effect, the components exported to Mexico are re-imported duty free. The trade flows through these facilities are about 30 percent of Mexican imports from the United States.

A second way to evaluate the importance of trade flows between the two countries is to look at the amount of total domestic production that is devoted to exports with the trading partner. In the case of the U.S., less than three tenths of one percent of total production is exported to Mexico; whereas Mexico exports slightly more than 9 percent of its total production to the United States.

TABLE 1

TRADE FLOWS BETWEEN THE UNITED STATES AND MEXICO
1988 LEVELS

Exports	Percent of Total Exports	Percent of Total Production
U.S. Exports to Mexico	5.87%	0.26%
Mexican Exports to U.S.	80.39%	9.07%

Imports	Percent of Total Imports	Percent of Domestic Consumption
U.S. Imports from Mexico	5.65%	0.33%
Mexican Imports from U.S.	73.00%	7.12%

The trade barriers between the United States and Mexico take many forms. On the U.S. side there are two basic forms of trade barriers. The first is ad-valorem tariffs imposed by the United States on imports from Mexico. Second, the United States imposes quantitative restrictions on the imports of certain commodities. The most important of the quantitative restrictions are on sugar, apparel, textiles, and certain agricultural products. Mexico also imposes tariffs and licensing restrictions, but in addition supplements the trade barriers by placing restraints on investment. These investment restraints have been relaxed significantly in the past few years, but remain an impediment to foreign investment.

All of the trade barriers operate in a similar manner. They increase the price paid by consumers and producers in the importing country and lower the price received by producers in the exporting country. The trade barriers distort relative prices and thereby affect production decisions and the allocation of resources in both economies. The first step in analyzing the economic effects of the trade barriers then is to translate these barriers into their effect on price.

The price effect of tariffs is straight forward: It equals the rate of the tariff imposed on the specific commodity. The price effect of other trade barriers is somewhat more complicated, however. The generally accepted procedure to deal with quantitative restrictions is to convert them into their "tariff equivalent." In the case of import quotas, for example, the question is what tariff rate would have produced the same level of imports as allowed under the quotas. Tariffs raise the price of imported goods relative to domestic goods. As the price of the imported good increases, less is imported. It is possible then to determine how large a tariff would be required to increase the price of the imported good by enough to reduce its demand to exactly the amount allowed under the quota.

Table 2 shows the average tariff rate and the tariff equivalent of import quotas for the United States and Mexico for merchandise trade, both including and excluding maquiladora trade. The rates used in the model are the ones including maquiladoras. The first column reports the average tariff rate imposed by the importing country. This rate is an import weighted average of commodity specific tariffs in each sector. It includes the value of all imported goods, not solely the taxable value. Partially exempt or completely exempt goods are fully included.

The second column shows the tariff equivalents of import quotas and the third column is the sum of the average tariff rate and tariff equivalent reported in the first two columns. We do not, in this model, incorporate non-tariff restrictions other than quotas or licenses. Also, the model does not fully capture the effect that an FTA might have on certain agricultural sectors. This is partly due to the nature of quotas for certain agricultural products in Mexico. For example, imports of most basic agricultural commodities are permitted only after the entire domestic supply has been consumed. In addition, in both countries there is extensive government intervention in the agricultural sector, primarily in the form of producer subsidies. The model results underestimate the gains to certain U.S. agricultural sectors (such as grains) due to an FTA that eliminates all trade distorting

TABLE 2

AVERAGE TARIFF RATES AND THE TARIFF EQUIVALENT OF IMPORT QUOTAS
(1990 Law)

	Average Tariff Rate	Tariff Equivalent of Import Quotas	Combined Tariff Rate
U.S.			
Including Maquiladoras	3.5%	1.3%	4.8%
Excluding Maquiladoras	5.8%	2.2%	8.0%
Mexico			
Including Maquiladoras	8.2%	0.3%	8.5%
Excluding Maquiladoras	10.7%	0.4%	11.1%

policies in these sectors.

As shown in the table, the average tariff rate is significantly higher in Mexico than in the United States. In the United States the average tariff rate is 3.5 percent. The average tariff rate in Mexico is 8.2 percent.

The United States, however, relies more heavily on import quotas than does Mexico. In the United States, import quotas are applied in a number of sectors, the most important of which are textiles, apparel and sugar. The result is an overall tariff equivalent of about 1.3 percent. Over the past five years, Mexico has eliminated most of its licensing requirements and, under current law, the tariff equivalent is only 0.3 percent. In total then, the combined tariff rate in Mexico is 3.7 percentage points higher than that imposed by the United States.

The tariff rates in Mexico for 1990 are the culmination of dramatic reductions in trade barriers over the past five years. Table 3 shows the reduction in tariff rates in Mexico from 1985 to 1990. Average tariff rates were reduced by almost 50 percent -- from 11.5 percent in 1985 to 8.2 percent in 1990. Even more significant was the reduction in the use of import licensing requirements, which reduced tariff equivalents from 7.4 percent to 0.3 percent.

Results of the Analysis

The economic effects of the FTA are analyzed under two alternative scenarios. The first analyzes the economic effects assuming that there is no additional capital stock in either Mexico or the United States. Under this condition, the major effect is a shifting of resources between sectors in the two economies.

As will be shown in this first analysis, the FTA will provide strong incentives for additional investment in Mexico. Whether this new investment actually occurs, however, depends to some extent on whether investment restrictions in Mexico are relaxed. This leads to the second scenario in which additional capital is invested in Mexico.

Tables 4 through 7 summarize the economic effects on the U.S. economy and on the Mexican economy, under the two scenarios. The tables show the economic effects of the FTA on (i) income, employment and factor prices, (ii) bilateral trade prices, and (iii) trade balances.

Table 4 shows the effects of the FTA on the U.S. economy assuming no additional capital in Mexico. Not surprisingly, the effects on income and employment are very small in the United States. Real income, the real wage rate and the real rate of return on capital all increase, but only by about 0.02 percent. While, by assumption, there is no effect on employment in the United States, the U.S. real wage rate increase indicates higher demand for U.S. labor.

TABLE 3

AVERAGE TARIFF RATES AND THE TARIFF EQUIVALENT OF IMPORT QUOTAS IN MEXICO - 1985 VERSUS 1990

	1985	1990	Change
Average Tariff	11.5%	8.2%	-3.3%
Tariff Equivalent Import Quotas	7.4%	0.3%	-7.1%
Combined Tariff Rate	18.9%	8.5%	-10.4%

TABLE 4

A SUMMARY OF THE ECONOMIC EFFECTS OF AN FTA WITHOUT ANY ADDITIONAL CAPITAL IN MEXICO

U.S. Economy

	Percent Change From Current Law
Income and Employment	
• Real Income	+ 0.02%
• Real Wage Rate	+ 0.02%
• Real Rate of Return	+ 0.03%
• Employment	---
Prices	
• Exports to Mexico	+ 2.64%
• Imports from Mexico	- 2.20%
Trade Balance	
• U.S. Trade Balance With Mexico	- 1.81%
• Trade Balance With Mexico and the Rest of the World	+ 0.03%

The next section of the table shows the effect on the average price received by producers and paid by consumers for merchandise and services. The price received by U.S. producers for their exports to Mexico increases by 2.6 percent when trade barriers are eliminated. Import duties drive a wedge between the price paid by consumers and the amount received by producers. Eliminating this wedge will tend to raise the price received by producers and lower the price paid by consumers until the two prices are equal. Recalling Table 2, the average combined tariff levied by Mexico on merchandise from the U.S. is about 8.5 percent; including trade in services, this average becomes 7.1 percent. The price received by U.S. producers goes up by only 2.6 percent, or about a third of the amount of the combined duty imposed by Mexico.

The prices paid by U.S. consumers and producers on imports from Mexico decline by about 2.2 percent. This decline is the mirror image of the increase in the price received by U.S. producers for their exports to Mexico. In this case the deciding factor is the import duty imposed by the United States. Again, recalling the tariff rates reported in Table 2, the United States imposes a 4.8 percent average combined tariff rate on merchandise from Mexico. When services are included, the average combined tariff rate becomes 3.5 percent. This means that slightly less than two thirds of the U.S. combined tariff rate is reflected in lower prices paid by U.S. consumers and producers.

The third section of the table summarizes the effects of the FTA on the U.S. trade balance. The first category is the trade balance with Mexico alone and the second category is the trade balance with Mexico and the rest of the world. Both real exports to and real imports from Mexico increase under FTA. Real exports to Mexico increase by 5.4 percent whereas real imports from Mexico increase by 4.2 percent. The net effect of increased exports to and imports from Mexico is a slight deterioration in the net export position of the United States with Mexico. Under the current trade regime, the United States is in a trade deficit with Mexico. Under an FTA, the U.S. trade balance with Mexico further deteriorates by 1.8 percent.

While the U.S. trade balance with Mexico deteriorates, the trade balance that the United States has with all its trading partners improves slightly. Since exports to Mexico account for about 6 percent of total U.S. exports, any change in the trade position with Mexico has a small effect on the U.S. trade balance. Moreover, the trade diversion that occurs under an FTA has the effect of improving the U.S. trade balance with the rest of the world. This improvement more than offsets the deterioration of the trade balance with Mexico.

Table 5 shows the economic effects on the Mexican economy under the first scenario. Real income and the real rate of return on capital increase more significantly than in the United States. For Mexico, unlike the U.S., it is assumed that increased demand for labor ultimately results in higher employment rather than an increase in the real wage rate. The FTA causes the demand for labor in Mexico to rise, leading to an increase in employment of more than 0.8 percent.

TABLE 5

A SUMMARY OF THE ECONOMIC EFFECTS OF AN FTA WITHOUT ANY ADDITIONAL CAPITAL IN MEXICO

Mexican Economy

Income and Employment	Percent Change From Current Law
• Real Income	+ 0.32%
• Real Wage Rate	---
• Real Rate of Return	+ 0.60%
• Employment	+ 0.85%
Prices	
• Exports to U.S.	+ 1.56%
• Imports from U.S.	- 4.30%
Trade Balance	
• Mexican Trade Balance With U.S.	+ 1.63%
• Trade Balance With the U.S. and the Rest of the World	+ 1.18%

The effect on prices received by Mexican producers exporting to the United States and Mexican consumers and producers importing from the United States follows the pattern seen in the United States. Prices in this table are denominated in Pesos. The price received by exporters increases, but somewhat less than in the United States. Similarly, the price paid for imports from the United States declines.

The first scenario, which does not incorporate the effects of any additional capital entering Mexico, is a useful exercise but is probably not realistic. A major thrust of an FTA would be directed toward eliminating or reducing investment restrictions in Mexico. In addition, as shown in Table 5, the real rate of return to capital increases in Mexico as a result of the FTA. These two factors suggest that additional capital will be invested in Mexico. The second scenario allows for the flow of capital into Mexico and looks at the effects on both the United States and Mexican economies of incorporating this additional capital flow.

For purposes of the analysis, it is assumed that additional capital flows into Mexico so as to reduce the real rate of return to capital to its pre-FTA level. This is a conservative estimate, since the removal of all investment restrictions in Mexico would attract even more capital. To force the rate of return down to pre-FTA levels, Mexico needs about twenty five billion dollars worth of additional capital, which is about 7.6 percent of its current capital stock. It is further assumed that 40 percent of the additional capital comes from foreign investors and 60 percent comes from Mexican investors. It is further assumed that half of the net profits on the foreign owned portion of this additional capital will be repatriated. The foreign capital could be owned by U.S. investors or foreign investors, but the main assumption is that it does not replace any physical plant and equipment that otherwise would have been located in the United States. Thus, it may represent investments made by U.S. investors that would have occurred in other countries.

Table 6 and Table 7 show the economic effects under the additional capital scenario for the U.S. economy and the Mexican economy respectively. The effects on the U.S. economy are still small but the increases in real income, the wage rate and the rate of return on capital are higher than in the case where no additional capital is allowed.

The price received by U.S. producers exporting to Mexico increases by slightly less than in the previous scenario. There is a significant change, however, in the price paid by U.S. producers and consumers for imports from Mexico. Under the no additional capital scenario, the import price falls by 2.2 percent. Under the additional capital scenario, the price of imports falls by 6.1 percent. The major reason for the higher price reduction is the fact that prices in Mexico fall relative to the dollar. In effect, in real terms the peso would be devalued by 4.8 percent relative to the U.S. dollar. While this magnitude may seem somewhat large, it should be recalled that all of these adjustments occur over a period of ten years. A 4.8 percent devaluation of the peso over a ten year period would result in less than one half of 1 percent devaluation per year.

TABLE 6

A SUMMARY OF THE ECONOMIC EFFECTS OF AN FTA ALLOWING ADDITIONAL CAPITAL IN MEXICO

U.S. Economy

	Percent Change From Current Law
Income & Employment	
• Real Income	+ 0.04%
• Real Wage Rate	+ 0.03%
• Real Rate of Return	+ 0.07%
• Employment	---
Prices	
• Exports to Mexico	+ 2.54%
• Imports from Mexico	- 6.05%
Trade Balance	
• U.S. Trade Balance With Mexico	- 20.79%
• Overall Balance With Mexico and the Rest of the World	+ 0.07%

The U.S. trade balance with Mexico is dramatically affected under this scenario. Real exports to Mexico and the dollars received for those exports both increase relative to the non-FTA case. However, those increases are somewhat less than under the no additional capital scenario.

The major effect in the U.S. is on imports from Mexico. As a result of an FTA, real imports from Mexico increase by 12.9 percent. The dollars paid for those imports, while higher than in the non-FTA case, increase only by about half of the increase in imports. This is due to the 6.1 percent decline in the price of imports.

Like the first scenario, the United States experiences a deterioration in the trade balance with Mexico. Again, this deterioration is more than offset by an improvement in the trade balance of the United States with its other trading partners.

Table 7 shows the effects on the Mexican economy. Real income in Mexico increases by 4.6 percent and employment increases by 6.6 percent. The real wage rate and the real rate of return on capital remain unchanged by assumption. The real wage rate is unchanged because the demand for additional labor is assumed to result entirely in an increase in employment. The real rate of return is unchanged because, under the simulation, just enough additional capital flows into Mexico to keep the rate of return unchanged.

It should be emphasized that certain quantity restrictions have not been taken into account in the model. The case of agriculture has already been mentioned. Another example is import restrictions on motor vehicles in Mexico, which have a unique structure. It is specially difficult to analyze the impact of the trade balance requirement on this sector. The effect of the elimination of this requirement depends to a large extent on strategic decisions by U.S. producers.

Current regulations in Mexico have induced U.S. producers to maintain an excessive number of production lines in Mexico, producing below efficient levels. An immediate elimination of all restrictions in this sector will lower prices, and induce significant growth in the Mexican market. In the short run, U.S. producers would shift production to the U.S. where production is more efficient than in Mexico. One would expect employment in this sector to increase in the U.S. and to decrease in Mexico, and the trade balance effect to be favorable to the U.S.

This situation would not remain unchanged, however. Over time, U.S. producers would rationalize operations in Mexico, reducing the number of production lines and increasing their volume. As a result, some of the Mexican demand satisfied by foreign (U.S.) production in the short run, subsequently will be provided by production in Mexico.

TABLE 7

A SUMMARY OF THE ECONOMIC EFFECTS OF AN FTA ALLOWING ADDITIONAL CAPITAL IN MEXICO

Mexican Economy

	Percent Change From Current Law
Income & Employment	
• Real Income	+ 4.64%
• Real Wage Rate	---
• Real Rate of Return	---
• Employment	+ 6.60%
Prices	
• Exports to U.S.	+ 2.65%
• Imports from U.S.	+ 0.61%
Trade Balance	
• Mexican Trade Balance With the U.S.	+26.88%
• Overall Balance With U.S. and the Rest of the World	+59.12%

It is clear that in the long run the Mexican market will be larger with an FTA. It is not clear, however, how much of this market will be supplied by production in the U.S. and how much by production in Mexico. Strategic decisions by U.S. auto makers play an important role in this outcome. Given this uncertainty, we have not made special adjustments for this sector the model.

The major effect of an FTA will be on specific sectors of the economies. Tariffs and non-tariff barriers insulate domestic industries from foreign competition. In general, this protection diminishes the incentive for efficient production and leads to higher domestic prices. In both the U.S. and Mexico, trade protection is not homogeneous across sectors. Therefore, the elimination of trade barriers between Mexico and the U.S. will affect sectors differently. Highly protected sectors will contract relative to other sectors as trade barriers are eliminated.

In both economies, there are sectors whose production is not tradable (such as construction), but are nevertheless affected by trade policy. In the case of an FTA, the initial effect of lowering trade barriers is to lower the price of tradables relative to the price of non-tradables. As a result of this, consumers and producers will shift their demand towards tradables and away from non-tradables.

Sectors that are highly protected in the U.S. include textiles, apparel and sugar refining. It is not surprising to find them among the contracting sectors in the U.S., and among the top expanding sectors in Mexico.

In Mexico, the most protected sectors include apparel, motor vehicles, cleaning and toilet preparations, transportation equipment, machinery and equipment, tobacco manufactures and optical instruments. With the exception of apparel, these sectors are among the major expanding sectors in the U.S. and the less expanding ones in Mexico. Apparel is an exception because it is more protected in the U.S. than in Mexico.

It follows that a significant effect of the FTA will be the reallocation of resources across industries in each country. Tables 8 and 9 show the effect on employment and output for each of the 44 sectors in the U.S. economy. Sectors are ranked in descending order by the magnitude of the percent change. Tables 10 and 11 show the same figures for Mexico.

TABLE 8

SECTORAL EFFECTS OF AN FTA ALLOWING ADDITIONAL CAPITAL IN MEXICO

U.S. EMPLOYMENT

		PERCENT	AMOUNT (000's)
36	Optical Instruments and misc. manuf.	0.91%	11.4
33	Motor vehicles & bodies	0.45	2.0
28	Machinery & equipment	0.27	4.5
17	Chemicals	0.13	0.9
18	Rubber & misc. plastic	0.07	0.6
34	Motor vehicle parts	0.06	0.2
35	Transportation equipment	0.05	0.6
39	Utilities	0.04	0.4
09	Food products	0.04	0.6
06	Crude oil & gas	0.04	0.2
43	Other business services	0.03	4.1
21	Petroleum refining	0.02	0.0
41	Finance & insurance	0.02	1.1
01	Animal products	0.01	0.1
44	Health ed. nonprofit & government	0.00	0.0
40	Wholesale & retail trade	0.00	0.7
22	Leather	-0.00	-0.0
37	Transportation	-0.01	-0.3
38	Communications	-0.01	-0.1
27	Fabricated metal	-0.01	-0.2
05	Mining	-0.01	-0.0
25	Iron & steel	-0.02	-0.1
10	Tobacco manufactures	-0.02	-0.0
13	Lumber & wood	-0.02	-0.2
19	Drugs	-0.03	-0.1
16	Printing & publishing	-0.03	-0.4
07	Construction	-0.03	-1.5
42	Hotels & restaurants	-0.03	-3.6
15	Paper	-0.03	-0.2
30	Electrical equipment	-0.04	-0.5
04	Other agriculture	-0.05	-0.5
20	Cleaning & toilet preps	-0.08	-0.1
24	Stone & clay	-0.12	-0.5

TABLE 8

SECTORAL EFFECTS OF AN FTA ALLOWING ADDITIONAL CAPITAL IN MEXICO
(continued)

U.S. EMPLOYMENT

		PERCENT	AMOUNT (000's)
02	Field crops	-0.12	-1.4
14	Furniture & fixtures	-0.14	-0.8
11	Textiles	-0.14	-1.0
23	Glass	-0.19	-0.3
26	Non-ferrous metals	-0.24	-0.9
12	Apparel	-0.40	-4.4
31	Household appliances	-0.46	-1.0
29	Computing equipment	-0.68	-2.7
32	Electronic components	-0.76	-4.7
03	Fruits & vegetables	-0.79	-2.6
08	Sugar refining	-2.38	-1.7
	TOTAL	0.00%	0.0

* "Optical instruments and miscellaneous manufacturing" includes measuring, analyzing and controlling instruments, photographic, medical and optical goods, watches and clocks, jewelry, toys and musical instruments.

** In Tables 8 to 11, results for "Field crops" and "Fruits and vegetables" may not reflect the effect of removing all trade distorting restrictions.

TABLE 9

SECTORAL EFFECTS OF AN FTA ALLOWING ADDITIONAL CAPITAL IN MEXICO

U.S. OUTPUT

		PERCENT	AMOUNT (millions of 1988 $)
36	Optical Instruments and misc. manuf.	1.21%	1302.9
28	Machinery & equipment	0.48	856.9
33	Motor vehicles & bodies	0.28	373.4
17	Chemicals	0.22	376.0
18	Rubber & misc. plastic	0.14	120.5
09	Food products	0.06	197.0
35	Transportation equipment	0.06	77.9
34	Motor vehicle parts	0.05	26.6
22	Leather	0.04	3.2
25	Iron & steel	0.03	25.7
27	Fabricated metal	0.02	32.6
21	Petroleum refining	0.02	24.6
39	Utilities	0.01	35.4
44	Health ed. nonprofit & government	0.01	156.1
43	Other Business Services	0.01	158.5
41	Finance and Insurance	0.01	51.1
16	Printing & publishing	0.01	14.3
06	Crude oil & gas	0.01	6.1
15	Paper	-0.00	-3.4
01	Animal products	-0.00	-3.5
40	Wholesale & retail trade	-0.01	-41.9
19	Drugs	-0.01	-3.8
13	Lumber & wood	-0.01	-7.8
37	Transportation	-0.02	-46.9
26	Non-ferrous metals	-0.02	-16 0
05	Mining	-0.02	-11.1
20	Cleaning & toilet preps	-0.03	-10.2
38	Communications	-0.03	-45.3
07	Construction	-0.03	-181.8
42	Hotels & restaurants	-0.04	-177.4
10	Tobacco manufactures	-0.05	-15.2
04	Other agriculture	-0.06	-22.3

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TABLE 9

SECTORAL EFFECTS OF AN FTA ALLOWING ADDITIONAL CAPITAL IN MEXICO
(continued)

U.S. OUTPUT

		PERCENT	AMOUNT (millions of 1988 $)
24	Stone & clay	-0.08	-34.2
30	Electrical equipment	-0.08	-106.5
11	Textiles	-0.13	-91.5
02	Field crops	-0.13	-87.1
14	Furniture & fixtures	-0.15	-60.1
23	Glass	-0.17	-25.6
29	Computing equipment	-0.49	-227.8
31	Household appliances	-0.58	-157.5
12	Apparel	-0.62	-384.4
03	Fruits & vegetables	-0.80	-143.4
32	Electronic components	-0.96	-437.9
08	Sugar refining	-3.89	-442.1
	TOTAL	0.01%	1053.7

TABLE 10

SECTORAL EFFECTS OF AN FTA ALLOWING ADDITIONAL CAPITAL IN MEXICO

MEXICAN EMPLOYMENT

		PERCENT	AMOUNT (000's)
08	Sugar refining	32.07%	24.4
12	Apparel	18.92	25.4
32	Electronic components	16.19	15.1
26	Non-ferrous metals	15.67	3.9
34	Motor vehicle parts	14.97	15.9
31	Household appliances	14.62	9.9
05	Mining	13.20	28.9
30	Electrical equipment	12.89	15.9
25	Iron & steel	12.86	8.6
11	Textiles	12.67	22.7
23	Glass	12.35	3.2
17	Chemicals	11.27	12.1
02	Field crops	10.44	333.1
27	Fabricated metal	9.66	9.1
15	Paper	9.64	4.9
36	Optical Instruments and misc. manuf.	9.38	7.0
29	Computing equipment	9.14	2.4
21	Petroleum refining	8.84	6.2
28	Machinery & equipment	8.77	5.0
13	Lumber & wood	8.52	5.7
14	Furniture & fixtures	7.74	6.0
24	Stone & clay	7.66	11.0
39	Utilities	7.60	8.1
33	Motor vehicles & bodies	7.48	7.1
07	Construction	7.39	141.0
18	Rubber & misc. plastic	7.38	6.5
22	Leather	7.01	8.9
42	Hotels & restaurants	6.88	40.5
43	Other business services	6.09	26.0
03	Fruits & vegetables	6.08	113.8
41	Finance & insurance	6.07	16.5
04	Other agriculture	6.06	11.7
38	Communications	6.03	7.3
16	Printing & publishing	6.02	4.2

TABLE 10

SECTORAL EFFECTS OF AN FTA ALLOWING ADDITIONAL CAPITAL IN MEXICO
(continued)

MEXICAN EMPLOYMENT

		PERCENT	AMOUNT (000's)
40	Wholesale & retail trade	5.88	157.8
37	Transportation	5.78	53.6
01	Animal products	5.67	40.4
09	Food products	5.28	30.1
19	Drugs	5.19	2.1
10	Tobacco manufactures	4.46	1.1
35	Transportation equipment	4.45	1.8
20	Cleaning & toilet preps	4.32	1.4
44	Health ed. nonprofit & government	3.37	207.4
06	Crude oil & gas	0.00	0.0
	TOTAL	6.60%	1463.6

TABLE 11

SECTORAL EFFECTS OF AN FTA ALLOWING ADDITIONAL CAPITAL IN MEXICO

MEXICAN OUTPUT

		PERCENT	AMOUNT (millions of 1988 $)
08	Sugar refining	32.10%	509.5
12	Apparel	18.95	748.7
32	Electronic components	16.21	439.2
26	Non-ferrous metals	15.70	322.2
34	Motor vehicle parts	15.00	678.0
31	Household appliances	14.64	311.7
05	Mining	13.23	614.1
30	Electrical equipment	12.91	548.6
25	Iron & steel	12.89	921.3
11	Textiles	12.70	585.6
23	Glass	12.38	136.4
17	Chemicals	11.30	1068.8
02	Field crops	10.46	610.9
27	Fabricated metal	9.69	386.7
15	Paper	9.68	349.4
36	Optical Instruments and misc. manuf.	9.41	204.8
29	Computing equipment	9.16	94.0
21	Petroleum refining	8.87	500.4
28	Machinery & equipment	8.79	213.9
13	Lumber & wood	8.55	134.0
14	Furniture & fixtures	7.77	196.7
24	Stone & clay	7.69	357.5
39	Utilities	7.62	384.2
33	Motor vehicles & bodies	7.50	579.1
18	Rubber & misc.plastic	7.41	289.5
07	Construction	7.41	1351.1
22	Leather	7.03	188.7
42	Hotels & restaurants	6.92	957.3
43	Other business services	6.13	917.2
03	Fruits & vegetables	6.11	354.5

TABLE 11

SECTORAL EFFECTS OF AN FTA ALLOWING ADDITIONAL CAPITAL IN MEXICO
(continued)

MEXICAN OUTPUT

		PERCENT	AMOUNT (millions of 1988 $)
04	Other agriculture	6.09	127.8
41	Finance & insurance	6.08	473.2
38	Communications	6.05	161.5
16	Printing & publishing	6.04	167.3
40	Wholesale & retail trade	5.91	2672.7
37	Transportation	5.81	1070.3
01	Animal products	5.70	471.0
09	Food products	5.31	1591.9
19	Drugs	5.22	100.2
10	Tobacco manufactures	4.49	46.9
35	Transportation equipment	4.46	27.7
20	Cleaning & toilet preps	4.35	118.3
44	Health ed. nonprofit & government	3.27	1072.9
06	Crude oil & gas	0.00	0.0
	TOTAL	7.34%	23055.7

Chairman GIBBONS. Thank you.

I would be remiss if I did not at this time say I hope you will take back to your colleagues at Salomon Brothers that I am very grateful for the fact that you have announced your intention to relocate a portion of your business to my congressional district. [Laughter.]

I do represent Tampa, FL, and we are very proud to be associated with you.

Mr. MCGRATH. Would the gentleman yield?

Chairman GIBBONS. Yes.

Mr. ENDERS. I think it is going to be good business for us, too.

Chairman GIBBONS. It is going to be good business for us, I know.

Mr. MCGRATH. I cannot help but jump in at this point and say how disappointed I am, coming from New York, but I am going to have a little talk with Mr. Zuckerberg when I get home. [Laughter.]

Mr. SCHULZE. Mr. Chairman, perhaps we could split the difference and end up in Pennsylvania.

Chairman GIBBONS. No, you have already picked Tampa, FL, and we claim them now.

Mr. ENDERS. There are a few low-wage workers like us that we have left back in New York. [Laughter.]

Chairman GIBBONS. Mr. Brooks.

STATEMENT OF FREDERIC H. BROOKS, CHAIRMAN, RIDDELL, INC., AND PRESIDENT, CARIBBEAN/LATIN ACTION, ACCOMPANIED BY PETER JOHNSON, EXECUTIVE DIRECTOR, CARIBBEAN/CENTRAL AMERICAN ACTION

Mr. BROOKS. Thank you, Mr. Chairman and members of the committee.

My name is Frederic Brooks and I am the chairman of Riddell, Inc., and I am here in my capacity as president of Caribbean/Latin American Action. This organization represents an important segment of the American business community and it brings a unique perspective to the discussions on the North American free trade agreement.

For the past 10 years, under our former and more familiar name, Caribbean/Central American Action, we have worked to make private sector-oriented economic development the basis for a prosperous future for the countries of the Caribbean Basin. We are convinced that strong, outward-looking market economies not only hold the key for a better way of life for the millions of people in this vast region, but offer the United States its best hope for continued security, peace and markets for our own productivity along our southern border.

For small societies such as those in the Caribbean Basin, it has long been clear that exporting successfully in the world market offers the only hope for earning the way to prosperity and long-term growth. We can now see that the same is true for our own economy. And with the emergence of strong trade blocs in Europe and Asia, the United States, no less than for our small neighbors, can compete effectively at the global level only if we are dealing from the largest, broadest, most diversified internal base possible.

That is why the countries of the hemisphere, including those of the Caribbean Basin, welcomed President Bush's enterprise for the Americas initiative. The existing United States-Canada Free Trade Agreement already provides the nucleus around which an expanded American trade community can be developed. The North American free trade area now under discussion among the United States, Canada and Mexico is the logical next step. Of course, for the small Caribbean and Central American countries that have been enjoying special access under the CBI, the prospect of unlimited access to the United States market for Mexican products has raised some genuine concerns. However, since Canada, the United States and Mexico have each already been pursuing independently a policy of granting special trade benefits to their small neighbors in the Caribbean Basin, it should not be difficult for the three of them to agree on mechanisms to as North American free trade environment that takes the special needs of the Caribbean and Central American countries into account.

Provided this is done, the interests of the Caribbean Basin countries, like those of our own business community here in the United States, will be best served by bringing the North American free trade area into being as quickly and comprehensively as possible, as the necessary foundation for moving forward toward the broader vision of hemispheric cooperation outlined by President Bush in his enterprise initiative.

After much thought and discussion within our organization, our trustees from the Caribbean Basin, as well as those from the United States, both felt so strongly that this strategy is the only one that makes sense for our mutual future in the region, that our board of trustees voted that the C/CAA itself should expand its mandate, indeed to the point of changing its name, and become an active advocate in the American trade integration process, starting with the integration of Mexico into the North American free trade area.

On behalf of Caribbean/Latin American Action, therefore, I would like to present five points for the consideration of this committee:

The first is that a North American free trade agreement joining the United States, Canada, and Mexico is itself worthy of support and should be kept on track as fully consonant with our own economic interests in the United States, as well as with our policy objectives in the region. This is my bottom line, and I will return to it in a moment.

The second point is that it is essential that steps be taken to insure that the special protections for the countries of the Caribbean Basin provided for in current U.S. policy, for reasons no less valid today than when they were enacted, are not compromised by the transition to United States-Mexico free trade.

We need to understand that the CBI benefits are effective only to the extent that they provide preferential access. A United States-Mexico FTA would erode this preference, not by repealing any existing CBI benefits, but by granting equal or, greater access to the far more voluminous competing exports from Mexico.

To maintain the intent of present U.S. policy toward the Caribbean Basin, some means must be found to preserve some special ad-

vantages for the CBI countries and to compensate for the advantages that they will inevitably lose when the NAFTA becomes a reality. These mechanisms could be addressed as part of the FTA discussions themselves or in broader policy level discussions between the United States and Mexico, or through unilateral U.S. concessions. In my written statement, you will find many specific practical suggestions for how this might be done. That is precisely my third point, which is that adequate mechanisms to keep the Caribbean and Central American countries from being adversely impacted can be readily set in place, without slowing down or otherwise interfering with the progress of the North American free trade negotiations.

My fourth point is that addressing the special needs of the Caribbean Basin countries can actually help bring the NAFTA into being. I know there are those who fear that trying to incorporate into the NAFTA process a commitment to protect the CBI countries might somehow complicate the negotiations or endangers the approval of the fast-track extension. I, too, would agree that keeping on track with the Mexico negotiations is so important that it would be better to proceed with that alone than to risk defeat by broadening the agenda.

However, I believe the opposite to be true. The North American free trade agreement has serious opposition. The approval of fast-track extension is far from assured. All of us who recognize its importance should be actively looking for ways to strengthen the constituency of support that can be brought in behind it, to counter the forces of protectionism that inevitably oppose any liberalization of trade. We need to expand the base of support for United States-Mexico free trade beyond its most obvious constituencies.

Over the years, we in C/LAA have been extremely gratified watching the initially small, but steadily growing constituency come together around concern for the future of the Caribbean Basin. It encompasses a wide group, ranging from companies who do business in the region, to major corporations seeing a long-term U.S. economic stake in the region's prosperity, to black and Hispanic Americans with cultural roots in the region, to citizens concerned about issues ranging from national security, to immigration, to drugs. It includes active leadership groups in Florida, Louisiana, and other States whose people have extensive commercial and human ties in the region. It includes agri-business and manufacturing firms hoping to expand exports to the region, and shipping and banking concerns that serve the growing United States-Caribbean business network. It includes Puerto Rico and the Virgin Islands, our most concrete reminders that the United States is itself a Caribbean Basin country.

These are all groups with a potential stake in the North American free trade agreement. I would like to see a NAFTA that all of them would feel good about supporting wholeheartedly.

For those Americans looking at the NAFTA and seeing its benefits to the U.S. economy, a stimulus to new growth, a vastly enlarged market, the inclusion in some way of the Caribbean Basin can only be an enhancement.

For those looking at the NAFTA and concerned about its potentially adverse impact on U.S. business or labor, the inclusion of cer-

tain benefits or protection for the Caribbean Basin cannot possibly make any difference. Even extending full FTA benefits for Mexico to the Caribbean Basin would probably have no discernible impact anywhere but in the region. It cannot possibly matter to the United States competitor or worker whether some United States or Mexican plant in Monterey makes a component there or at a twin plant in Jamaica. It cannot possibly matter whether an American company that now buys its product from Korea, instead decides to produce it either in Costa Rica or Juarez.

My fifth point, therefore, concerns the position our organization would like to see the administration and this committee adopt at the present time. The important thing, Mr. Chairman, is to keep these negotiations on track. As I understand it, the fast-track authority will automatically extend, unless Congress moves during this period to kill it.

I also understand that nothing in the authority it grants the administration would prevent the U.S. negotiating team at the NAFTA talks discussing with their Canadian and Mexican counterparts how to avoid hurting the Caribbean Basin and how to build in provisions that would help it. I understand that nothing in the fast-track authority, as it stands, would prevent the administration from pursuing framework agreements at any time with any country or regional grouping in the hemisphere or in moving into actual FTA negotiations with them, upon proper notification of Congress.

If my understanding of all these matters is correct, I am not necessarily asking this committee for any positive action. However, my organizations and all of those concerned for the future of the Caribbean Basin consider it vitally important that nothing in the legislative record of these hearings, whether in the comments of you, the members or the administration or other witnesses, should later be construed by the administration or by Congress as limiting the discretion of the administration to address the needs of the Caribbean Basin at any point in the process in whichever way seems most appropriate.

We would consider it most helpful if this committee, in any report you might issue or in your own comments spread on the record of these hearings, could convey to the administration a positive sense of Congress that the U.S. interest would be well served by bringing the Caribbean Basin into as full a free trade status as its own development and regional integration will permit.

In closing, Mr. Chairman, I would like to return to the first of the five points I have just set out, and that is the fundamental point that bringing Mexico into a North American free trade area with the United States and Canada will substantially serve the economic interests of the United States. Opening up the United States-Mexico border to trade will mean an enormous new market for U.S. producers and service providers, as well as new opportunities for investment and growth. Economic expansion in both societies will create new jobs, both at the labor and management level. Comparative advantages on import duties and quotas could induce many companies now producing in Asia or importing components and finished goods from the Asian suppliers to make them, instead,

either in Mexico or taking advantage of cross-border maquila industries.

We at Caribbean/Latin American Action have much more reason than the average business observer for vouching for the validity of the claim made by proponents of the United States-Mexico FTA that it will create far more jobs than it displaces.

In the early 1980's, when the Caribbean Basin initiative had been proposed and our organization was deeply involved in the campaign to secure its enactment, many business, as well as labor groups, expressed concern that the CBI might lead to the flight of U.S. jobs to the Caribbean. Now, looking back on 7 years of the CBI, it is clear that the feared exodus never occurred. The overwhelming proportion of new jobs created under the CBI came, if they came from any prior location, from other overseas locations, not from the American workforce. In many cases, in fact, locating a plant in the Caribbean Basin enabled the company to return part of an operation or supply chain to the United States from abroad or to keep open a U.S. operation that had been in danger of closing from foreign competition. In any event, at the macro level, the new volume of exports generated vastly overshadowed the balance of investment or disinvestment.

It is helpful for us to keep in mind that when businesses or families in Mexico or the Caribbean Basin buy products not produced in their own countries, they buy them from us. The demand for U.S. agricultural output, as well as for manufactured goods and services, is enormous, virtually insatiable. The only thing keeping it down is lack of money. When we make it easier for these nations to sell their exports or attract investors, we are putting money into the pockets of people more likely to spend it in our economy than anywhere else in the world, including their own country.

Those of us who have seen this phenomenon in the Caribbean Basin can reassure our fellow citizens that creating new opportunities for Mexico will not only not shrink opportunities for American businesses and workers, but will vastly expand them. A properly designed North American free trade agreement will ultimately benefit our entire hemisphere, but the benefits to the U.S. economy will be obvious and immediate. I urge your full support for the process.

Thank you very much, Mr. Chairman.

[The prepared statement follows:]

MAXIMIZING THE BENEFITS OF NORTH AMERICAN FREE TRADE

Statement by

Frederic H. Brooks
President, Caribbean/Latin American Action
and Chairman, Riddell, Inc.

to the
Subcommittee on Trade
Committee on Ways and Means
U.S. House of Representatives

February 28, 1991

Mr. Chairman, Members of the Committee--

It is a pleasure for me to have this opportunity to present for your consideration the thoughts of an important segment of the American business community on the prospective North American Free Trade Agreement.

The organization I represent--Caribbean/Latin American Action--brings a unique perspective to this discussion. For the past ten years, under our more familiar former name--Caribbean/Central American Action--we have worked to make private-sector-oriented economic development the basis for a prosperous future for the countries of the Caribbean Basin. Those of us in the U.S. business community, together with our counterparts from the countries themselves, have dedicated ourselves to this effort because we are convinced that strong, outward-looking market economies not only hold the key for a better way of life for the millions of people in this vast region, but offer the United States its best hope for continued security, peace and markets for our own productivity along our Southern border.

We have focused our energies on the small nations of the English-speaking and island Caribbean, and the larger but still relatively small nations of Central America, because their unique problems and needs can so easily be overlooked in a world and hemisphere overshadowed by such larger countries and issues, and yet--if these problems are allowed to fester or explode--they can do as much damage as those originating in their more powerful neighbors. More importantly, we have realized that the people of these societies, though fragmented into small units, together make a substantial and highly positive contribution to our hemisphere's economy, culture, and political system.

In the effort to promote private-sector-oriented economic development in the Caribbean Basin, nothing has played a larger role than international trade, and particularly access to the U.S. market. Again and again over the past decade, we have found ourselves arguing for favorable U.S. trade legislation (the Caribbean Basin Initiative and its enhancements); encouraging the governments of the region to adopt business policies more conducive to foreign trade and investment; and helping business people take advantage of the new opportunities that have resulted. For small societies such as those in the Caribbean Basin, it has long been clear that exporting successfully in the world market is the only hope for earning the way to prosperity and long-term growth.

New trends ushered in with the 1990's have forced the United States to reevaluate the foundations of our own economic security. It is clearer to us now than ever before that for us, too--no less than for the mini-economies south of us--"successfully competing in the world market is our only hope for earning the way to prosperity and long-term growth." And as the world trading system adjusts to the emergence of strong trade blocs in Europe and Asia, it is equally clear that for the United States, no less than for our small neighbors, competing effectively at the global level can only occur if we are dealing from the largest, broadest, most diversified internal base possible.

That is why the countries of the Hemisphere, including those of the Caribbean Basin, welcomed President Bush's Enterprise for the Americas Initiative. In the long term, free trade throughout the Americas would offer each country of the Americas, from the largest to the smallest, our best hope for sustained economic growth anchored in our combined internal market and reaching out in a competitive but non-exclusive manner to the rest of the world.

The existing U.S.-Canada Free Trade Agreement already provides a nucleus around which an expanded American trade community can be developed. After long years of negotiating, and a certain degree of controversy on both sides of the border, it is now generally conceded that the U.S.-Canada Agreement has benefited and strengthened both countries. The present talks among the U.S., Canada and

Mexico to unite the three countries in a North American Free Trade Agreement is the logical next step. The diversity between Mexico and her more developed northern neighbors is an asset, not a liability. Together they can bring to one another not only the world's largest internal market, but the range of resources, technology, labor and service industries needed to offer manufacturers competitive options for operating global export industries.

For U.S. companies such as my own and others who provide the funding for Caribbean/Latin American Action, it became increasingly clear over the past year that U.S.-Mexican free trade was a coming reality only time away, because it was so clearly recognizable as being in the economic and political interest of both countries. In this context, we began to explore with the Caribbean and Central American private-sector leaders who serve with us as Trustees of this organization the meaning and impact of U.S.-Mexican free trade for the Caribbean Basin, and the posture which our organization should adopt with respect to it.

Our conclusion was that despite the short-term dangers represented by enhanced access by Mexican competitors to the U.S. market, Caribbean and Central American countries can best serve their own long-term interests by becoming active protagonists rather than reluctant bystanders in the challenging drama of creating an expanding American trade bloc. A modest effort on the part of the United States, Mexico and Canada to keep in mind the vulnerabilities and needs of their small Caribbean and Central American neighbors--which all three have already recognized separately in their existing trade and aid policies--could insure that the interests of the Caribbean Basin countries are protected during the transition to a North American Free Trade system. Provided such steps are taken, the interests of the Caribbean Basin countries--like those of our own business community here in the United States--will be best served by bringing the North American Free Trade Area into being as quickly and comprehensively as possible, as the necessary foundation for moving forward toward the broader vision of hemispheric cooperation outlined by President Bush in his Enterprise initiative.

After much thought and discussion, our Trustees from the Caribbean Basin as well as those of us from the United States both felt so strongly that this strategy is the only one that makes sense for our mutual future in the region, that our Board of Trustees voted that C/CAA itself should expand its mandate --indeed to the point of changing its name--and become an active advocate in the American trade integration process, starting with the integration of Mexico into the North American Free Trade Area.

Having shared this background with you, I am here on behalf of C/LAA to present five points for the consideration of this Committee:

First, that a North American Free Trade Agreement joining the United States, Canada and Mexico is itself worthy of support, and should be kept on track as fully consonant with our own economic interests in the United States as well as with our policy objectives in the region.

Second, that it is essential that steps be taken to insure that the special protections for the countries of the Caribbean Basin provided for in current U.S. policy--for reasons no less valid today than when they were enacted--are not compromised by the transition to U.S.-Mexican free trade.

Third, that there are numerous practical suggestions for how such protective mechanisms could be set in place without slowing down or otherwise interfering with the progress of the North American Free Trade negotiations.

Fourth, that addressing at this point the issue of the impact of the NAFTA on Caribbean Basin countries, and incorporating into the NAFTA process a commitment to preserve in some way the preferential position they have enjoyed as Caribbean Basin Initiative beneficiaries, will enhance rather than complicate the process of building political support for NAFTA and for the extension of its fast-track authority.

And fifth, that it would therefore be most helpful for your Committee to reflect in its report or in the record of its deliberations a sense of Congress that the interests of the CBI countries be protected--at the very least, to insure that the Administration does not construe its negotiating authority in a way that rules out any of the present options for addressing the role of the Caribbean Basin, and--beyond that--even better, to convey to the Administration a positive mandate from Congress to devise a means of protecting the interests of the CBI countries in the NAFTA process in whatever manner proves most effective and expeditious.

With your permission, Mr. Chairman, I would like to elaborate briefly on each of these four points.

Free Trade with Mexico is in the U.S. Interest

First, we must start with the premise that free trade with Mexico is in in fact, in itself, in the economic interest of the United States. We firmly believe that it is.

We can leave aside for the moment the broader foreign policy significance of helping to foster in our only large immediate Latin American neighbor the kind of expanding economy that best provides opportunities for social mobility, broader participation of the population in the economic system and its rewards, higher employment, less emigration pressure, greater social cohesion, a stronger base for the institutionalization of democracy, and a relationship of mutual respect with the United States. There was a time when Americans had to be reminded of the potential importance to their own lives of what goes on within Third World countries and the type of leadership and policies that emerge from them. Today, with our country at war with a developing nation most Americans never paid any attention to until a couple months ago, such reminders are no longer necesssary.

Instead, in looking at our relationship with Mexico we start with an appreciation of its political and security significance and move on to the enormous potential a closer economic relationship holds for both societies. Opening up the U.S.-Mexico border to trade will mean an enormous new market for U.S. producers and service providers, as well as new opportunities for investment and growth. For companies in key industries like electronic software, an FTA's safeguards of intellectual property rights will open huge areas they dared not venture into without legal protection. For manufacturing firms, the FTA's liberalizing of business rules and red tape will mean taking a new look at Mexico as a long-term operating site. Freer transportation across the border and the probable spawning of twin plants and companies operating and selling on both sides of it could revitalize the local economies of border communities and states. Availability of Mexican industrial supplies and consumer goods will expand the range of choice for American producers and families. Economic expansion in both societies will create new jobs both at the labor and management level. Comparative advantages on import duties and quotas could induce many companies now producing in Asia or importing components and finished goods from Asian suppliers to make them instead, either in Mexico or taking advantage of cross-border maquila industries.

When a company switches from Asian or European sourcing or production to a facility in one of America's near neighbors, more than the host country and its workers benefit. The change usually means a far higher purchase of U.S. inputs, machinery and equipment, and services, along with a far higher likelihood that some of the design, manufacturing or finishing operations would in fact be retained in the United States.

We at C/LAA have much more reason than the average business observer for vouching for the validity of the claim, made by proponents of the U.S.-Mexico FTA, that it will create far more jobs than it displaces. In the early 1980's when the Caribbean Basin Initiative had been proposed, and our organization was deeply involved in the campaign to secure its enactment, many business as well as labor groups expressed concern that the CBI might lead to flight of U.S. jobs to the Caribbean. Now, looking back on seven years of the CBI, it is clear that the feared exodus never occurred. The overwhelming proportion of new jobs created in the Caribbean and Central America came--if they came from any prior location--from other overseas locations, not from the American workforce. In many cases, in fact, locating a plant in the Caribbean Basin enabled the investing company to return part of an operation or supply chain to the U.S. from abroad, or to keep open a U.S. operation that had been in danger of closing from foreign competition. In any event, at the macro level the new volume of exports generated vastly overshadowed the balance of investment or disinvestment.

It is helpful for us to keep in mind that when businesses or families in Mexico or the Caribbean Basin buy products not produced in their own countries, they buy them from us. The demand for U.S. agricultural output, as well as for manufactured goods and services, is enormous--virtually insatiable. The only thing keeping it down is lack of money. When we make it easier for these nations to sell their exports or attract investors, we are putting money into pockets of people more likely to spend it in our economy than anywhere else in the world, including their own country. Those of us who have seen this phe-

nomenon in the Caribbean Basin can reassure our fellow citizens that creating new opportunities for Mexico will not only not shrink opportunities for American businesses and workers, but vastly expand them.

CBI Countries Require Special Protection

Second, it is critical that we recognise why the prospect of U.S.-Mexican free trade raises the need for special steps to protect the countries of the Caribbean Basin. As you know, the Caribbean Basin Initiative of 1983 as well as a variety of enhancements added later by Congress or by the Administration in its discretion all serve the purpose of granting participating CBI beneficiary countries preferential access to the U.S. market. This principle has been imbedded in U.S. policy for the last decade in recognition of the special needs and vulnerabilities of these countries, and of the critical importance of the progress of economic development, democracy and stability in these nations to the economic, political and security interests of the United States. At each of the several points over the past decade when Congress has debated these matters, it has always concluded that--even within a general policy of global trade liberalization away from special preferences--the foreign policy reasons for granting preferential treatment to the CBI countries are and remain persuasive. This is still the case.

A North American Free Trade Agreement that implements free trade between the United States and Mexico without providing in some way for the status of the CBI countries would adversely affect their interests--in some cases severely--in both the short and long term. Let us be clear on why that is so. No one fears or expects that a U.S.-Canada-Mexico agreement would contain language repealing the CBI or any of the benefits granted to date to CBI countries. Its damage would be in reducing the preferential advantage of Caribbean and Central American countries in direct competition with Mexico over export markets and attraction of investors. This change in the relative position of Mexico and the CBI countries would occur not because the CBI countries' access would be made less, but because their Mexican competitors' access would be made greater.

Implementation of the NAFTA would increase the relative advantage of Mexico over the Caribbean Basin in several ways:

(1) Loss of CBI duty-free advantage. If the target schedule is met, as of the beginning of 1993, some presently dutiable Mexican products would begin to enter the U.S. market duty-free. Some products not eligible for duty-free treatment under the GSP or as production-sharing components--and therefore dutiable as Mexican exports--are not dutiable as CBI countries. Once Mexico could also export the same products duty-free, the CBI advantage on them would be lost.

(2) New Mexican advantage in products now duty-free for both. Most non-sensitive products both from Mexico and the CBI countries now enter the U.S. duty-free under the GSP whether or not eligible under the CBI. While there is now no advantage either way, an FTA would give Mexico the added advantage of greater security of permanency. Even though Congress moved last year to remove the 12-year limit from the CBI and make it a permanent program, because it is a unilateral, non-reciprocal U.S. policy, Congress could change it at any time. The provisions of the FTA, on the other hand, would be mutually binding. Because duty-free status is used to attract investors for whom the absence of duty makes the telling difference in their profit margin, they want to be able to rely on its permanence. The added degree of reliability would thus give Mexico an advantage over the CBI countries in the competition to attract investment.

(3) Treatment of sensitive products. Products which remain dutiable under the CBI--principally apparel and footwear, and to some extent leather products--are expected to be granted gradually phased-in duty reductions under the FTA, presuming the agreement for Mexico follows the Canadian pattern. Even though the initial reductions may be no more than 10 percent, that margin plus the fact that they would grow deeper each year would create an advantage for Mexico in the attraction of investment in these sectors--an advantage that would grow stronger over time.

In addition, CBI countries have enjoyed effective exemption, to a large extent, from apparel quotas under the 807-A Guaranteed Access Level program. While these benefits would continue, any similar

apparel-quota concessions made to Mexico under the FTA would--like the duty reductions--enjoy the added advantage of being mutually binding as part of an international agreement. Liberalization in the terms of the U.S.-Mexico bilateral textile agreement is in fact expected to occur under the FTA.

The combined effect of more favorable duty treatment for Mexican exports and eroding quota advantages for CBI exports could cause the CBI countries to experience disinvestment or loss of new investment in the critical apparel sectors. This would be a major blow for them, since many of the Caribbean Basin countries, relying at least in part on the quota exemptions, have enjoyed great success in attracting firms in these industries despite their non-duty-free status.

(4) Snowball effect of a NAFTA. Companies weigh many factors in choosing a site for offshore investment for the purpose of re-exporting to the U.S. market. The specific relative advantages I have just mentioned may not be large factors in any given case, but may be enough to tip the balance in a close decision. In addition, the inclusion of Mexico in a new North American Free Trade Area at a time when the Caribbean countries are neither included in it nor participating in their own FTA negotiations would bring Mexico other real but less quantifiable advantages. Not the least of these would be the attention focused on it by news media and U.S. agencies, and the sense at the psychological level that Mexico is the place where the current action is, where smart companies are getting on the bandwagon.

Mr. Chairman, all these ways that an FTA would tip the balance in favor of Mexico over the Caribbean--added to its natural advantages of size, development, and a long land border with the U.S.--would leave the countries of the Caribbean and Central America seriously vulnerable to loss of both markets and investment industries to their Mexican competitors.

I hasten to add, Mr. Chairman, that none of all that--despite the very real danger of damage and its possibly great severity--is a reason not to proceed with U.S.-Mexican free trade under the proposed NAFTA--even from the point of view of the endangered countries themselves. In the long term, they themselves can benefit greatly from new opportunities opened up by U.S.-Mexican free trade, and the industries it might attract back into the hemsiphere from the Far East. The point is, rather, that consistency with our own policies expressed in the Caribbean Basin Initiative and reaffirmed by this Congress only last year require that in proceeding with the North American Free Trade Agreement our Government take whatever steps are indicated to make sure that these potential adverse effects on the CBI countries do not in fact happen.

Mechanisms for Preserving a Caribbean Basin Advantage

Fortunately, Mr. Chairman, we are not lacking in ways to prevent a North American Free Trade Agreement from having an adverse impact on the Caribbean Basin. There are, in fact, quite a number of ways to approach this task, none of which would in any significant way diminish the value of the FTA to Mexico, nor would they make the task of completing the FTA significantly more difficult.

I would like to describe a number of these approaches, without attempting to make the case that any particular approach should be the one adopted, either by Congress or by the Administration. I am confident, in fact, that these merely serve to illustrate a much larger group of possible mechanisms that could be identified once the task of doing so were undertaken by the appropriate agencies. My point in mentioning these is to make clear that we are not talking about something that would be nice to do if it were possible, but it probably isn't. We are not talking about a zero-sum game, trading off Mexico against the Caribbean. We are talking about something that is entirely do-able without detriment to any of the participants; it is simply a matter of identifying the best way out of any number of possible ways.

These are some of the steps that might be taken:

(1) Within the North American Free Trade Agreement itself, the U.S., Mexican and Canadian negotiators could agree among themselves to include provisions extending certain benefits to the Caribbean Basin countries. For instance:

- A provision mutually committing the parties to extend to the Caribbean Basin countries whatever tariff or quota concessions

they extend to one another, at whatever time they become operable. (This would avoid the adverse impact of differential rates.)

- A provision mutually committing the parties to extending special non-reciprocal benefits to the Caribbean Basin countries on a unilateral basis. (Given the pre-existence of the CBI, CARIBCAN, and recent Mexican overtures toward the region, this might simply be a reaffirmation of existing policy. However, building it into the FTA would make it a mutual commitment, and avoid the adverse impact of lesser reliability of CBI and other unilateral benefits.)

- Special rules-of-origin provisions treating Caribbean Basin input as FTA input, and Caribbean Basin exports with certain levels of FTA input as FTA exports. (This would encourage co-production between Mexico and the Caribbean and Central American countries, and reduce the adverse impact of market loss by preserving a supplier role for the Caribean Basin countries. It is consistent with Mexico's current policy goal of establishing free trade with Central America in the next five years.)

- A mechanism to allow Caribbean Basin countries to become Associated States of the NAFTA without necessitating a full-fledged new Congressional approval procedure. The concept of an FTA having Associated States is one for which the European Community has already established a precedent. In this status, the Associated State shares fully in the benefits of the FTA, but retains certain independence toward the outside world, and is admitted to the Associated status without having to meet all the requirements of full-fledged members. For instance, Associate States may not be required to grant full reciprocity, at least initially. (The Associated States approach would permit the policy of non-reciprocal trade concessions toward the Caribbean Basin already being followed by the U.S., Canada and Mexico to become mutually binding, and also to serve as a basis for integrating the region more fully into the actual FTA at a later date.)

While I may not be seeing the technical issues involved the same way a professional trade negotiator would see them, it seems to me at least consistent in principle that three countries like the U.S., Canada, and Mexico, seeking through the mechanism of an FTA to coordinate closely various aspects of their trade policies, could use the FTA agreement as a vehicle for making mutual commitments to one another as to a certain aspect of their trade policy toward the outside world, especially when--as in the case with North American policy toward the Caribbean Basin--all of them are on record trying to implement a policy objective in which they all have a similar stake.

I might add that the U.S. and Mexico should be talking together not just in the trade negotiation context but at the policy level, and at the working level of assistance programs, to see how they can work more closely and more effectively together in developing programs that reflect their mutual policy objectives of promoting peace, democracy and economic development in the Caribbean Basin. In that broader policy context, they will then better be able to address how these objectives can be achieved through the careful handling of trade issues.

(2) In addition, the United States in its own unilateral policies--aside from whatever provisions are included in the North American FTA--can commit itself to protecting the special advantages of Caribbean and Central American countries by retaining and enhancing existing preferences and devising new benefits to compensate for those lost or eroded by the implementation of free trade with Mexico. Among the options to be considered in for this purpose are these:

- Insuring the continuation and enhancement of Puerto Rico's Section 936 CBI program--a source of funds and investment attraction uniquely favoring participating CBI countries. Developments over the past year--including new investment in twin plants, accession of more CBI countries to the required Tax Information Exchange Agreements, improved outflow of official 936 CBI lending, and the recent launching of the $100 million private-sector 936 Partnership Fund--all point to the importance of this program for the Caribbean Basin. As the FTA erodes other CBI advantages, it

is more important than ever that the 936 program in Puerto Rico receive the fullest support from Congress and the Administration, as further ways are sought to expand and strengthen its impact in the countries of the Caribbean Basin.

- Strengthening of assistance programs to the region so that, with human and physical infrastructures upgraded, the Caribbean and Central American countries will ultimately be prepared to hold their own as full partners in an American free trade area. Recently the Assistant Director of AID for Latin America and the Caribbean, Jim Michel, told private sector leaders from the region that they can expect aid flow to go down rather than up. Congress can change that, and should. However, even if the total resources remain limited, it is all the more important that those in fact being spent in the region should be reallocated to give trade institutions such as CARICOM and the Central American Common Market the support they need. If trade rather than aid is to be the ultimate source of capital inflows needed for development and the meeting of basic human needs, institutions for regional integration and trade promotion need to be vastly strengthened. It is also important that in fashioning our own aid programs, we begin to look more at how Mexico can help. While Mexico itself is a developing nation in need of external capital and internal growth, it has demonstrated a willingness and ability to play a leadership role toward its smaller and less developed neighbors.

- Existing benefits under the CBI can be enhanced. Supporters of Caribbean Basin enterprise-oriented development inside and outside of Congress generally agreed that the CBI-II legislation enacted last year was modest in the extreme, and should better be regarded as part of an on-going series of small but incremental improvements than as a major one-time upgrade of the original legislation. Representative Gibbons is already circulating a new CBI-III bill attempting once more to extend CBI coverage to the presently excluded products--principally apparel, footwear and leather. Sugar policy is another area where a unilateral change in U.S. trade law could have enormous direct benefits for Caribbean and Central American countries.

  I might add that there is no reason why protection against adverse effects of the Mexican FTA could not be built directly into CBI enhancement legislation--for example, a provision that certain types of benefits such as reduced duties on excluded products would automatically be included in the CBI when and if they became operative for Mexico.

Mr. Chairman, there is good precedent within the CBI itself for making special provision for the protection of entities that can claim a special relationship with the United States based on previous commitments, within the body of a new policy primarily benefiting a different set of countries. This can be found in the special provisions within the CBI for the benefit and protection of Puerto Rico and the Virgin Islands. The rebate of excise taxes on rum, and the differential in the duty-free allowance for travelers returning through customs, were inserted in the CBI to insure that the U.S. policy interest in giving special advantages to the CBI countries didn't undercut our existing policy of giving special preferences of a high level to the U.S. Virgin Islands and the Commonwealth of Puerto Rico. Special protection for the Caribbean and Central America within the new policy context of granting concessions to Mexico would be in this same tradition.

(3) Finally, Mr. Chairman, the task of protecting the survival and success of Caribbean and Central American countries in the new world of North American Free Trade can be addressed in negotiations with the countries themselves. An important way to protect the region's interests is to make sure those interests are represented at the pre- and post-FTA negotiating tables. Here are some possible scenarios:

- One way would be to enlarge the North American Free Trade negotiations at the outset to include the Caribbean Basin as part of North America, bringing them in as full partners alongside Mexico and Canada. Given the short timetable, the advanced stage of negotiations, and the unreadiness of the Caribbean Basin--either

to engage in negotiations as a region, or to undertake the reciprocal responsibilities of full membership--this is probably not a realistic option.

- Another way, which I mentioned earlier, is to create a special status of Associated State member, for which the entry requirements could be negotiated at a later date among the three Free Trade partners and the countries or regional groupings to be admitted as Associated States.

- Short of that, it is possible that the North American Free Trade Agreement could include a provision providing for Caribbean Basin representation in any consultative mechanisms created under the FTA to resolve problems and facilitate voluntary adjustments.

- At the very least, the U.S. negotiating team for the NAFTA should include one or more persons knowledgeable about Caribbean Basin interests and specifically charged with keeping alert to, and avoiding, any provisions potentially adverse to these countries as the U.S.-Mexico-Canada FTA is finalized.

- Finally, apart from the U.S.-Mexico-Canada FTA negotiations, the Administration has the authority, during the period of the extended fast track (trusting that it will, indeed, be extended) to begin Free Trade discussions with the Caribbean and Central American countries themselves. The President's Enterprise for the Americas Initiative proposes that Framework Agreements be negotiated with countries or groups of countries in the hemisphere as the foundation for future Free Trade Agreements with them. This sequence was in fact followed with great success in the current Mexican negotiations.

  While several countries in the region already have Framework Agreements, or have them under discussion, for the Caribbean Basin a regional approach makes much more sense than proceeding one by one. President Bush, in his vision for a hemisphere-wide free trade system built up from a series of bilateral FTA's, proposed that FTA's whenever possible be negotiated with regional groupings rather than single countries. No one seriously contemplates the prospect of a Caribbean Basin with 20 or 30 separate FTA negotiations going on at once.

  A basis for cooperation among CBI countries in a Framework Agreement and ultimately in an FTA already exists in the uniform commitments all the CBI beneficiaries undertook in order to be declared eligible. But while a Caribbean Basin-wide agreement would be ideal as a foundation for integration into the North American system, it is probably unrealistic to expect all the countries of the region to come together sufficiently to form a single negotiating unit. As a minimum approach, FTA's might be negotiated with those countries most ready to undertake them, with the understanding that they would serve as models for broader regional groupings of Central American or Caribbean countries, if not for the entire Basin.

  As a middle ground, a third approach--and probably the most helpful one--would be for the U.S. Government to actively encourage the Central American Common Market and CARICOM, respectively, to put their own integration efforts on enough of a fast track to permit the negotiation, respectively, of U.S.-Central American and U.S.-Caribbean regional Framework Agreements. An additional task, of course, on the Caribbean side is the challenge of determining if and how to integrate into a CARICOM-led process the non-CARICOM Caribbean--Haiti, the DR, the Dutch territories and conceivably even the French departments.

  The process of attempting to reach one or two Caribbean Basin regional Framework Agreements would be useful whether or not it led to one or two regional FTA's in the Caribbean Basin, or to their incorporation into or association with the North American Free Trade Agreement, or--indeed--whether or not it succeeded in producing regional Framework Agreements. An integrated approach will be important to the region even in the informal process of seeking NAFTA-based or unilateral concessions from the United States, Canada and Mexico. Current discussions underway between

Mexico and the Central American countries give reason to hope that the countries of the region will rise to the challenge.

Mr. Chairman, I've described here a wide range of possible mechanisms for protecting Caribbean Basin interests from potential damage by the North American FTA. These run the gamut from provisions to be included in the NAFTA itself, to unilateral U.S. policy actions, to negotiations involving the Caribbean and Central American countries themselves. I would reiterate my opening point that I am not here to advocate any particular one of these approaches. I do believe, however, the the U.S. Government should take it upon itself to give this matter a high priority, and to adopt whichever approach or combination of approaches will best accomplish the objective.

I would also like to add that we believe a certain urgency should be adopted in the timing of these efforts. Since the Caribbean Basin has no direct part in the current NAFTA negotiations, it is already suffering the adverse consequences in the psychological perception of business decision-makers that the momentum in heading away from them in a different direction. Unless, concurrently with the NAFTA's spotlight on Mexico, the Caribbean and Central American countries are themselves the subject of Framework negotiations, their own FTA negotiations, or--at the very least--high-level policy discussions about the region's vital importance to the United States, the public impression that the region is being left behind could do real damage.

The Administration's statements on the FTA and the Enterprise for the Americas initiative sometimes suggest that the various subregions are to be addressed ad seriatim--first, Mexico, then--only after negotiations with Mexico have been completed--whichever country or regional grouping is ready to come next, and after finishing with them, then the next, and so on. Mr. Chairman, that kind of forming a queue and waiting your turn should be left to the Moscow grocery stores. The need to strengthen the economic base and global competitiveness of the United States and our American trading partners is too urgent to string out into the next century. Certainly the countries of the Caribbean Basin depend too much on today's investment and purchasing decisions to spend any time on the back burner.

Let us take a quick, practical look at the timetable. The period for extending or terminating the fast track authority ends in June. The Administration hopes the U.S.-Mexico-Canada agreement will be concluded by the end of 1991. Implementation is targeted to begin one year later, at the first day of 1993. The extended fast-track authority will expire in June 1993. If a special status for the Caribbean Basin countries is to be created under the fast-track process--and I believe missing that opportunity would be disastrous--priority attention must be given to it long before the end of this year, whether or not the Mexican negotiations are complete. The Administration should be investigating the most appropriate mechanisms now, so that negotiations for the benefit of the Caribbean Basin countries--whether as part of NAFTA or with the Caribbean region separately--can begin as soon as the extension takes effect. Two years is a very short time to cover all the ground that must be covered.

An Expanded NAFTA Constituency

In closing, Mr. Chairman, I would like to make a point that may go against the accepted wisdom in this town. Those in the Administration and others who believe--as does C/LAA--that approval of the fast-track extension is in the vital economic interest of this country, sometimes appear to believe that addressing at this time the issues I have raised today about the status of the Caribbean Basin under NAFTA might somehow undermine or endanger the approval of the fast-track extension. If I thought that were the case, Mr. Chairman, I would not be here today. I, too, believe that keeping on track with the Mexico negotiations is so important that it would be better to proceed with that alone than to risk defeat by broadening the agenda.

The reason I am here, however, is that I believe the opposite to be true. The North American Free Trade Agreement has serious opposition. The approval of fast-track extension is far from assured. All of us who recognize its importance should be actively looking for ways to strengthen the constituency of support that can be brought in behind it, to counter the forces of protectionism that inevitably oppose any liberalization of trade. We already know that the AFL-CIO and other groups of reputed lobbying prowess have already targeted the NAFTA fast-track for defeat. It is extremely important, therefore, to try in every possible way to expand the base of support for the Mexican free trade process beyond its natural constituency.

Over the years, we in C/LAA have been extremely gratified to watch an initially small but steadily growing constituency come together around concern for the future of the Caribbean Basin. It encompasses a wide group, ranging from companies who do business in the region, to major corporations seeing a long-term U.S. economic stake in the region's prosperity, to Black and Hispanic Americans with cultural roots in the region, to citizens concerned about issues ranging from national security to immigration to drugs. It includes active leadership groups in Florida, Louisiana and other states whose people have extensive commercial and human ties in the region. It includes agribusiness and manufacturing firms hoping to expand exports to the region, and shipping and banking concerns that serve the growing U.S.-Caribbean business network. It includes Puerto Rico and the Virgin Islands, our most concrete reminders that the United States is itself a Caribbean Basin country.

All these groups together may not be large compared to the population of Mexico, or the nationwide business and labor forces with direct interests in the passage or defeat of the NAFTA fast track. But in a close situation, they would not be insignificant.

While the Administration at the technical level is appropriately focusing attention on the details of the NAFTA process, the question of whether a commitment to address the Caribbean Basin issue early in the process would help or hinder approval of the fast-track extension is a political judgment only you in the Congress can make. For what it is worth, I think it will help. For those looking at the NAFTA and seeing its benefits to the U.S. economy--a stimulus for new growth, a vastly enlarged market--the inclusion in some way of the Caribbean Basin can only be an enhancement. For those looking at the NAFTA and concerned about its potentially adverse impact on U.S. business or labor, the inclusion of certain benefits or protections for the Caribbean Basin cannot possibly make any difference.

No sector of the U.S. economy would be adversely impacted by anything I have proposed here today. The marginal impact on the U.S. economy of extending FTA benefits from Mexico to the Caribbean Basin (the maximum position in terms of what we are seeking) would probably have no discernable impact anywhere but in the region. It cannot possibly matter to a U.S. competitor or worker whether some U.S. or Mexican plant in Monterey makes some component there or at a twin plant in Jamaica. It cannot possibly matter whether an American company that now buys its product from Korea instead decides to produce it either in Costa Rica or Juarez.

Keeping Options Open

As I understand it, Mr. Chairman, the fast track authority will automatically extend unless Congress moves during this period to kill it. I also understand that nothing in the authority it grants the Administration would prevent the U.S. negotiating team at the NAFTA talks to discuss with their Canadian and Mexican counterparts how to avoid hurting the Caribbean Basin or how to build in provisions that would help it. I understand that nothing in the fast track authority as it stands would prevent the Administration from pursuing Framework Agreements at any time with any country or regional grouping in the Hemisphere, or in moving into actual FTA negotiations with them upon proper notification of Congress.

If my understanding of all these matters is correct, I am not necessarily asking this Committee for any positive action. However, my organization and all those concerned for the future of the Caribbean Basin consider it vitally important that nothing in the legislative record of these hearings, whether in the comments of you the Members or the Administration or other witnesses, should later be construed by the Adminstration or by Congress as limiting the discretion of the Administration to address the needs of the Caribbean Basin at any point in the process in whichever way seems most appropriate.

And we would consider it most helpful if this Committee, in any report you might issue or in your own comments spread on the record of these hearings, could convey to the Administration a positive sense of Congress that the U.S. interest would be well served by bringing the Caribbean Basin into as full a free-trade status as its own development and regional integration will permit.

Thank you very much, Mr. Chairman.

Chairman GIBBONS. Thank you, Mr. Brooks.
Ms. Johnson.

STATEMENT OF KIM JOHNSON, DIRECTOR, CANADA-UNITED STATES BUSINESS ASSOCIATION; AND DIRECTOR, SAMUEL, SON & CO., LTD.

Ms. JOHNSON. Thank you. Good morning. My name is Kim Johnson. I am a director of the Canada-United States Business Association, and I am also a director of Samuel, Son & Co., Ltd., my family business, which is one of Canada's oldest and largest steel manufacturing companies.

Our company is heavily involved in the United States. We have operations in five States, including Florida, and we are now entering the Mexican market. I would like to thank you, Mr. Chairman, and the other members of the Trade Subcommittee for giving me the opportunity to testify this morning on what I believe to be Canada's stake in a North American free trade agreement.

I am a Canadian, but I live and work in Washington. I have worked for both partners in the free trade agreement between the United States and Canada. I served as a public affairs officer for the Canadian Embassy in Washington, helping promote Canada's position on the Canada-United States free trade negotiations. Then I served as a trade specialist with the U.S. Consulate General in Toronto helping United States business people take advantage of the trade and investment opportunities opened up by the Canada-United States Free Trade Agreement, which Americans still persist in calling the United States-Canada Free Trade Agreement. [Laughter.]

In 1988, when I was still living in Toronto, I helped organize the Canada-United States Business Association. Our goal was to mobilize support within the business communities on both sides of the border for closer economic ties between our two countries and to help the general public better understand the workings of the FTA.

As you remember, Mr. Chairman, you were kind enough to come to Toronto last year in January to speak to a CUSBA audience about the importance of the agreement. I really thought we had been doing a pretty good job. Then about a month ago, I was at a dinner party here in Washington. Canada's Ambassador to the United States was the guest of honor. While I was busy eating my dessert, Ambassador Burney said something that got my attention. He said that during negotiations on the Canada-United States Free Trade Agreement, business on both sides of the border had played an active role. But once the FTA was in place, he could not get business to come out of the woodwork.

I thought the Ambassador's comment was a little strange, since he had spoken to CUSBA on April 25 of last year up in Toronto and praised us for helping build understanding and support for the free trade agreement. Anyway I figured I would come out of the woodwork today and speak up.

As a Canadian and as a business person, I want to reassure the subcommittee that the Canada-United States Free Trade Agreement is working, and that in my view, a North American free

trade partnership is a key to growth and prosperity for our three countries.

Three weeks ago, when it was announced that Canada would join Mexico and the United States in these negotiations, our International Trade Minister, John Crosbie, spoke of the confidence he has in Canada's ability to compete economically and to fulfill our tremendous potential as a nation. I share this confidence and optimism. I firmly believe that a North American free trade agreement will enable Canadians to maintain and even increase our share of the United States market.

I believe that a North American free trade agreement will provide Canadians with better access to Mexico's expanding market. We can increase our exports and have greater investment opportunities. I believe that a North American free trade agreement can help us compete more successfully against the emerging trading blocs led by Western Europe and Japan. We really do not have any choice, because there is no hiding from global competition.

I believe strongly in the principle of free trade. As a nation, Canada has benefited enormously from the liberalization of trade that has taken place since the end of the Second World War. A good case in point is the Canada-United States Free Trade Agreement. It has been a great success.

Businesses on both sides of the border want to speed up the timetable for phasing out the remaining tariffs. The dispute resolution mechanism is working. In the first 2 years alone, the Canada-United States FTA generated an additional $6 billion in exports, an extra $3 billion for Canada and an extra $3 billion for the United States.

Here is more evidence: Canada's trade surplus widened by more than 50 percent last year, thanks mainly to the rise in our exports to the United States. We have always been a trading nation, more so than the United States, in fact. We are terribly important to each other and always have been. I am reminded of something John F. Kennedy said during a visit to Canada about 30 years ago: "Geography made us neighbors. History made us friends. And economics has made us partners."

This year, the United States will take more than 75 percent of our exports and will supply more than 68 percent of our imports. Our two-way trade is approaching $200 billion a year. By comparison, Canada's two-way trade with Mexico is quite modest, less than $2 billion a year. We export about $500 million worth of goods to Mexico and import about $1.5 billion worth of goods from Mexico.

At the moment, direct investment by Canadian companies in Mexico is less than one-half billion dollars, compared with nearly $11 billion in the United States. I do not know whether that includes Robert Campeau's investments.

Canada's exports to Mexico consist of motor vehicles and parts, raw or semiprocessed materials such as iron and steel, oilseeds, dairy products, sulphur and asbestos. We import mostly manufactured goods from Mexico, things like autoparts, appliances and machinery, plus several hundred million dollars worth of agricultural products.

Investment Canada, which is a Government agency, says that the potential for trade development between Canada and Mexico is lim-

ited in the short term. Fine, so maybe Investment Canada is not looking to Mexico for the kind of immediate and substantial trade gains we have experienced in the Canada-United States FTA. But many Canadian businesses are looking for immediate gains. You can find plenty of Canadian business people in Mexico City, and Monterrey these days. They are opening offices, finding agents and distributors and looking for investments, acquisitions and joint ventures.

A report done last month for our Parliament forecast increased trade and investment opportunities for Canadian steel, pulp and paper, agricultural products, seafood, mining and minerals, chemicals and electronics. The report also pointed out that our expertise in transportation, telecommunications and civil engineering put us in a great position to help Mexico modernize its economy and infrastructure.

Millions of Canadians believe that the Canada-United States Trade Agreement has been successful, and they believe a North American free trade agreement can build upon this success. So too does our Business Council on National Issues, the Canadian Manufacturers Association, the Canadian Exporters Association, the Canadian Chamber of Commerce and two of our foremost think tanks, the C.D. Howe Institute and the Institute for Research on Public Policy.

Given the success of the Canada-United States Free Trade Agreement, I am puzzled by the opposition in some quarters in Canada to expanding the agreement into a trilateral pact. Some Canadians are concerned about the maquiladora plants along the Mexico-United States border. Mexico is not looking to expand the maquiladoras. It wants large-scale joint ventures and foreign-owned manufacturing plants that will create hundreds of thousands of permanent new manufacturing jobs.

There are lots of Canadian companies that could play a role there, including my family's company. Mexico also wants to expand its agricultural export markets. The United States and to a lesser extent Canada could provide those markets. Canadians who worry about a so-called flood of Mexican imports should keep in mind that about 80 percent of Canada's imports from Mexico are already duty-free, and the rest face an average duty of only 10 percent. So if Mexican imports had a large competitive advantage, I believe they would already have flooded the Canadian market.

Finally there is a concern about the threat of so-called cheap Mexican labor. Frankly, I believe the importance of labor costs in determining competitiveness is overrated. Low wages may be an incentive for Canadian companies to relocate to Mexico. But labor costs account for only one part of the total production cost. Transportation costs and communications costs are factors, too, and they do not work to Mexico's advantage.

As the Canadian Manufacturers Association points out, Mexico, Brazil, Taiwan, and China all have very low wages, and yet their combined share of the Canadian import market is only 7.2 percent. By contrast, the high-wage economies of the United States, Europe, and Japan account for nearly 90 percent of Canada's imports.

Canadian critics conveniently fail to point out what will happen if we stay out of a Mexico-United States agreement. For example,

we will not enjoy the preferential access to the Mexican market for investment and production that the United States will enjoy, and Canada will miss out on the opportunity to negotiate the removal of Mexican barriers to Canadian exports, and will not have any say over which areas are considered for trade liberalization.

Canada simply cannot afford to remain on the sidelines while Mexico and the United States begin talks that could completely restructure the North American economy. A wise politician, perhaps a member of this subcommittee, once said that when controversial issues are being discussed, it is better to be inside talking rather than outside complaining. That is why we wanted to be part of the free trade talks between Mexico and the United States.

It took 3 years for Canadian and United States officials, with strong support from the business communities in both countries, to negotiate our free trade agreement. In Canada, those negotiations were accompanied by an intense, prolonged and at times bitter debate among Canadians themselves. Fortunately that national debate ended with a decision to approve the FTA. That was round one; now we are ready for round two.

The historic debate over free trade is being played out once again in Canada. When it is over, I am confident the Canadian people will again express their pride and self-assurance in Canada's ability to compete in the global marketplace. There are plenty of world class Canadian businesses: Molson, Northern Telecom, Bombardier, Lafarge, Lavalin, Olympia and York, Manufacturers Life, Alcan, Noranda, Moore Corp., and Seagram's, to name just a few. And there are plenty of other success stories, too: John Candy, Dan Akroyd, Peter Jennings, Morley Safer, Robert MacNeil, Gordon Lightfoot, John Kenneth Galbraith, and Wayne Gretzky.

I know what you are thinking: "I did not know all these people were Canadians." For many Canadians, a new internationalist outlook will not be easy. Too many Canadians still dread the idea of international competition and would prefer to return to the protectionist policies of the past. A study done last year for Kodak Canada by the Center for International Business at the University of Toronto said, "Nothing less than a fundamental change in Canada's traditional protectionist mind-set is needed."

I believe Canada's economic destiny is intertwined with the destinies of the United States and Mexico and Europe and Asia. For me, this is an exciting and rewarding challenge, and I cannot believe we will duck that challenge. Earlier this week I had a conversation with Gustavo Petricioli, Mexico's Ambassador to the United States. I was talking with him about all the exciting things that could happen in the future under a North American free trade agreement.

I was going on, and on, as I have done this morning, when suddenly the Ambassador interrupted me and said, "Kim, this is not about the future. This is about the present."

Thank you, Mr. Chairman, for allowing me to express my views on this important matter that so vitally affects our present as well as our future. I will be happy to try to answer any questions you may have.

[The prepared statement follows:]

Statement of
Kim Johnson
Director, Canada-U.S. Business Association
on
"Canada's Stake in a North American Free Trade Agreement"

Before the Subcommittee on Trade
Committee on Ways and Means
United States House of Representatives
Washington, D.C.

February 28, 1991

Introduction

Good morning, Mr. Chairman and Members of the Subcommittee. My name is Kim Johnson and I am a director of the Canada-U.S. Business Association (CUSBA). I am also a director of Samuel, Son & Company, Ltd., my family business, which is one of Canada's oldest and largest steel manufacturing companies. I would like to thank you for affording me the opportunity to testify this morning on what I believe to be Canada's stake in a North American Free Trade Agreement.

By way of brief background, I was born and raised a Canadian but now live and work in Washington. Several years ago, I served as a public affairs officer at the Canadian Embassy here in Washington, helping explain Canada's position on the free trade negotiations then underway. More recently, I served as a trade specialist with the Foreign and Commercial Service in the United States Consulate General Office in Toronto, helping U.S. business people take advantage of the enormous trade and investment opportunities that opened up when the Free Trade Agreement went into effect on January 1, 1989.

I continue to travel frequently to Canada and Mexico on business. As a director of CUSBA, I remain heavily involved in bilateral issues. CUSBA was formed in late 1988 to mobilize support within the business communities on both sides of the border for closer economic ties between our two countries and to help people better understand the workings of the U.S.-Canada Free Trade Agreement.

As you will recall, Mr. Chairman, you were kind enough to come to Toronto in January of last year to speak to a CUSBA audience about the Free Trade Agreement. Congressman Anthony was in Toronto last month to share his views on the prospects for a new Free Trade Agreement that would involve Canada, the United States and Mexico. Other speakers this past year have included the U.S. Ambassador to Canada; the U.S. Trade Representative; Canada's Finance Minister; and Canada's International Trade Minister.

Several weeks ago, I was at a small dinner party here in Washington where Canada's Ambassador to the United States was the guest of honor. During the course of the dinner, the Ambassador said that during the earlier negotiations on the Canada-U.S. Free Trade Agreement, business on both sides of the border had played an active role, but now that the FTA had been in place for two years, he couldn't get business to come out of the woodwork to publicly acknowledge the business gains from the Agreement.

I am coming out of the woodwork today, as a Canadian business person, and also as someone whose own family business is heavily involved in the United States. We have operations in five U.S. states and are actively looking at opportunities in Mexico. My professional career involves representing U.S. firms with interests in both Canada and Mexico.

NAFTA as an Opportunity for Canada

I believe the North American Free Trade Agreement presents an unprecedented opportunity for our three countries -- Canada, Mexico and the United States. It is the opportunity to unite more than 360 million people in a single economic market, producing more than $6 trillion in goods and services and stretching "from the Yukon to the Yucatan."

Three weeks ago, Canada announced it had joined Mexico and the United States in these negoitations. At that time The Honorable John Crosbie, International Trade Minister of Canada, spoke of the confidence he has in Canada's ability to compete economically and to take advantage of an North American Free Trade Agreement to mobilize and maximize Canada's tremendous potential as a nation. I share this confidence and optimism.

I firmly believe that an North American Free Trade Agreement will enable Canadians to preserve the Canadian share of the U.S. market -- not by resisting Mexico's initiatives but by taking advantage of new opportunities. It will provide Canadians with better access to Mexico's expanding market by increasing exports and investment opportunities. A new agreement might give Canadians better access to U.S. markets as well.

I believe that the upcoming negotiations will help create a strong, unified North American trading area that will help us compete more successfully against the emerging trading blocs led by Western Europe and Japan. We really have no choice, for there is no hiding from global competition.

Finally, I am a strong believer in the principle of free trade. As a nation, Canada has benefitted enormously from the liberalization of trade that took place since the end of World War II. It's standard of living has risen dramatically under the General Agreement on Tariffs and Trade (GATT); that is one reason why Canadians are such strong supporters of the GATT and have pressed so hard for the resumption of the GATT talks.

As Todd Rutley, a senior economist for the Canadian Manufacturers Association, puts it: "trade liberalization and prosperity go hand in hand." Trevor Eyton, a leading Canadian industrialist and a strong supporter of both the Canada-U.S. Free Trade Agreement and an new North American Free Trade Agreement, agrees: "The world is truly global," he says. "To think otherwise is like hiding from the bogeyman by pulling the bedclothes over your head." Finally, David McFadden, president of CUSBA in Toronto, puts it another way. "History," he says, "proves that an open trading environment utlimately brings economic growth and prosperity to all."

The Success of the U.S.-Canada FTA

A good case in point is the U.S.-Canada Free Trade Agreement. It has been a smashing success. Businesses on both sides of the border want to speed up the timetable for phasing out the remaining tariffs. In its first two years, our Free Trade Agreement created an additional $6 billion in exports, evenly divided: an additional $3 billion for Canada and an additional $3 billion for the United States. In New York State alone, Canadians invested an additional $100 million during the first year of implementation.

In addition, Canada's trade surplus increased more than 50 percent last year to $9.37 billion, mainly due to the rise in exports to the United States. Overall exports rose to $130 billion. Canada has always been a trading nation; more so than the United States. I'm proud of this Canadian tradition, and I believe trade and investment will continue to drive Canada's economy into the next century.

There is no denying the importance of our bilateral trading relationship. Last year, the United States took more than 75 percent of our exports and supplied more than 68 percent of our imports. Our two-way trade amounts to nearly $175 billion a year.

Canada's Trade with Mexico

By comparison, Canada's trade with Mexico is quite modest: less than $2 billion a year. It exports about $500 million worth of goods to Mexico and imports about $1.5 billion worth of goods from Mexico. Canada exports mainly raw or semi-processed materials to Mexico -- such as iron and steel, oil seeds, dairy products, sulphur and asbestos -- and imports mostly manufactured goods from Mexico -- such as auto parts, appliances and machinery, and agricultural produce.

Investment Canada, a government agency, points out that "in light of Mexico's small economic stature relative to the U.S. and Canadian economies, the potential for trade creation in the short and medium terms are very limited." However, many Canadian business people believe otherwise and are looking for immediate gains. Mexico City and Monterrey are frequently host to Canadian business people -- opening offices, finding agents and distributors, and looking for investments, acquisitions and joint ventures.

Under the leadership of President Carlos Salinas de Gortari, Mexico's economy is expanding rapidly and opening up to outside investment. Mexico is solving its foreign debt problem, the economy continues to grow faster than the population, and the government bureaucracy is being reduced while privatization moves ahead in key sectors.

Currently, direct investment by Canadian companies in Mexico is "only" approximately $315 million, compared with about $10.8 billion in the United States. The potential, however, is enormous. A sector-by-sector analysis recently conducted for the House of Commons Committee on External Affairs and International Trade, predicts there will be increased trade and investment opportunities for Canadian steel, pulp and paper, agricultural products, seafood, mining and minerals, chemicals and electronics. The analysis points out that, with expertise in transportation, telecommunications and civil engineering, Canada is in a perfect position to help Mexico modernize its economy and infrastructure.

Several Mexican government and business leaders I have spoken with in major cities of the United States, Mexico and Canada, believe Canada will benefit from a trilateral agreement. For example, Herminio Blanco, Mexico chief trade negotiator, says he is convinced "the future of our three countries is a three-way deal."

A number of Canadian organizations agree, among these are: the Business Council on National Issues; the Canadian Manufacturers Association; the Canadian Exporters Association; the Canadian Chamber of Commerce; and two of our foremost think-tanks, the C.D. Howe Institute and the Institute for Research on Public Policy.

Addressing Canadian Concerns

Given the success of the Canada-U.S. Free Trade Agreement, I do not understand the opposition in some quarters in Canada to expanding the Agreement into a trilateral pact. The opposition is aimed at flooding the market with cheaper, foreign goods and "cheap Mexican labor."

Canadians who worry about a "flood" of Mexican imports should keep in mind that about 80 percent of Canada's imports from Mexico are already duty-free, and the rest face an average duty of only 10

percent. So, if Mexican imports had a large competitive advantage, they would have already flooded the Canadian market.

For example, some Canadians are concerned about the *maquiladora* plants along the Mexico-U.S. border. These plants produce foreign products for export. However, there are already some 2,000 *maquiladora* plants, and their impact on Canada will be felt whether or not we have an North American Free Trade Agreement. Moreover, Mexico is not looking to expand this area of business.

Mexico's greater objective is bringing in large-scale joint ventures and foreign-owned manufacturing plants that create hundreds of thousands of permanent new manufacturing jobs. This is where Canadian companies should be directing their attention. There are many Canadian companies who can play a role here. Mexico also wants to expand its agricultural export markets; the United States, and, to a lesser extent, Canada, can provide those markets.

Finally, there is considerable concern about the threat of "cheap Mexican labor," particularly from those in automotive parts, textile and clothing industries. As for Mexican auto parts, 98 percent of the parts already enter Canada duty-free because of provisions in the Canada-U.S. auto pact. I believe the importance of labor cost in determining competitiveness is overrated. Low wages may be an incentive for Canadian companies to relocate to Mexico, but labor costs account for only 18 percent of total production costs. There will probably be little increased competition from Mexican imports in many sectors, because of the huge distances and shipping costs involved.

As the Canadian Manufacturers Association points out, Mexico, Brazil, Taiwan and China all have very low wages, yet their combined share of the Canadian import market is only 7.2 percent. In contrast, the high-wage economies of the United States, Europe and Japan account for nearly 90 percent of Canada's imports. The idea that Canada should not trade with countries that have a lower wage rate than we do is unreasonable: 150 of the 160 countries in the world have lower-wage rates than Canada.

The Consequences of Non-Involvement

Often, Canadian critics of a North American Free Trade Agreement fail to point out the disadvantages of not participating in the talks. As Peter Morton, writing in the *Financial Post* last week, put it: "The crucial issue for Canadians in North American free trade is not what Canada can gain from joining the U.S. and Mexico in talks, but what we stand to lose by staying aloof."

For example, Canada will not enjoy the preferential access to the Mexican market for investment and production that the United States will, unless it participates in the Agreement. Trade and investment readjustment between Mexico and the United States will also occur at Canada's expense. Furthermore, Canada will miss the opportunity to negotiate the removal of Mexican barriers to Canadian exports and will not have a voice in which areas are considered for trade liberalization.

In short, Canada simply cannot afford to look on while Mexico and the United States begin talks that could completely restructure the North American economy.

A wise politican once said that when controversial issues are being discussed, it is better to be inside talking rather than outside complaining. This is why Canadians should join the free trade talks between Mexico and the United States.

Conclusion

It took three years for Canadian and U.S. officials, with strong support from the business communities in both countries, to negotiate a Free Trade Agreement. In Canada, those negotiations were accompanied by an intense, prolonged and, at times, bitter debate among Canadians themselves. Fortunately, that national debate ended with a decision to approve the Free Trade Agreement.

That was Round One. The hammer is now poised over the bell for Round Two. In the United States, hearings such as this one will lead to a decision whether to extend authority to President Bush to enter into formal negotiations for a U.S.-Mexico Free Trade Agreement, or perhaps even a North American Free Trade Agreement.

In Canada, the historic debate over free trade is being played out once again. When it is over, I am confident the Canadian people will again express their pride and self-assurance in Canada's ability to compete successfully in the global marketplace. I believe Canada's economic destiny is intertwined with the destinies of the United States and Mexico. Personally, that is an exciting and rewarding challenge. I cannot believe many Canadians will shirk that challenge.

Canada should be a full and equal participant in the creation of a North American Free Trade Agreement. Canada's inclusion in the NAFTA will strengthen the U.S.-Canada trade relationship and will augment the bilateral ties cemented in the FTA implemented two years ago. Futhermore, the NAFTA will enhance competitiveness in the U.S., Canada and Mexico and will make North America more competitive in relation to the rest of the world.

Again, Mr. Chairman, I would like to thank you and the other Members of the Subcommittee, for allowing me to express my views on this important matter that so vitally affects not only our future, but our present.

Chairman GIBBONS. Ms. Johnson, you only made one mistake in that list of famous Canadian names. You left out your own.

Ms. JOHNSON. Oh, well, I am glad you put it in.

Chairman GIBBONS. Well thank you. I know that it is modesty that forbids you from naming yourself. But you certainly have made a real outstanding—you and your family—a real outstanding contribution to Canada's success.

Ms. JOHNSON. Thank you very much.

Chairman GIBBONS. And I regret, but two bells have rung twice since we began this, and I have got to go vote. So I think I had better recess this meeting now till say 1:30, and thank you all very much.

[Whereupon, at 12:19 p.m, the subcommittee recessed, to reconvene at 1:30 p.m., the same day.]

AFTERNOON SESSION

Chairman GIBBONS. We will proceed now.

Ms. Wallis, would you mind leading off?

STATEMENT OF R. TASHA WALLIS, FELLOW, ECONOMIC STRATEGY INSTITUTE

Ms. WALLIS. I am Tasha Wallis. I am a fellow at the Economic Strategy Institute.

Basically, we feel that a win-win-win deal can be reached, but that it will require a fundamental rethinking of how we are approaching this deal and what we have on the negotiating table so far, and I have three simple statements that I want to make to support that.

First, I think we should step back in time and look at why Mexico, the United States, and Canada want this deal. Mexico wants this deal, because they need foreign investment. They would also like to lock in their recent reforms and they feel that an international treaty would do that.

The United States would also like to lock in those reforms. Further, we are also interested in developing the Mexican economy and the longstanding foreign policy goal of a stable Mexico.

The Canadians, why do they want to be there? Well, they do not want to be left out, and they are worried also about losing some of their current benefits from the Canada-United States agreement.

Now, none of these goals are what one would think of as the traditional reasons for entering into free trade, and the reason that we should think about these is the U.S. multiple agenda of development, national security and trade could influence the decisions we make about what economic benefits we will gain at the bargaining table, and already you see this happening. The current rush to agreement is not because of the economic imperative, but because we want to lock in those reforms and we want to pursue that goal of a stable Mexico. So, I think we should fundamentally think about what we want and where we are going with this deal.

Now, to illustrate where we might lose on the economic front, I am going to talk about investment, because I think investment is really the key to this whole issue. A lot of the concern has been expressed here on Capitol Hill about Mexico operating as an export

platform. A standard response to that is we will have stringent rules of origin. However, this will not be enough.

Rules of origin will determine which goods are considered Mexican and which goods are considered North American, in order to qualify for the tariff exemption, but they will in no way prohibit foreign firms from setting up shop in Mexico and exporting to the United States and being very competitive with North Americans firms, and that is why we at the Economic Strategy Institute feel that this issue has to be addressed at the negotiating table.

We suggest that the current Mexican restraints on foreign investment be liberalized, with preference for North American investors. We feel that will help address this problem and a lot of the gains to be captured by North America.

Likewise, we also feel that there are some creative policy options on the investment side which could be explored. For instance, both the United States and Canada are worried about displacement of production. If we were to increase Mexico's textile quota relative to other nations, so that we do not increase the North American quota, we would see enhanced development of that sector in Mexico, without costing United States and Canadian jobs.

There are examples from other sectors. In the automobile sector, the Big Three have a large amount of captive production, that is, cars that they import from Japan and Korea and sell under their label. James Womack, of the International Motor Vehicle Program at MIT, argues that in a rationalized North American marketplace, that production could take place in Mexico. If we created incentives of some sort to bring that captive production home, all three nations, Mexico, the United States and Canada would gain.

Finally, the third point, environment and labor considerations: I think there is a lot of confusion about those two points right now. A number of people seem to think that those are special interests which are trying to insert their agenda into free trade discussions, but both environment and labor concerns are key elements of the U.S. domestic agenda.

We have the Environmental Protection Agency, we have the Department of Labor, we have OSHA regulations, and what we are seeing is not special interests, but a tension between a domestic policy agenda and our trade agenda, and there is an irony here, in that minimum wage and workplace standards protect or enhance the environment of those jobs that are threatened sometimes by our free trade stance, which allows low-wage producers access to the United States. So, I think it is very important that the United States and this administration figure out how to balance our domestic policy agenda and our trade agenda, by incorporating environmental and labor concerns into the agreement.

Thank you.

[The prepared statement follows:]

Statement of R. Tasha Wallis, Fellow
Economic Strategy Institute

***The Economic Strategy Institute believes an agreement benefiting all three countries --a win/win/win deal -- can be reached. But, this can only be accomplished with a dramatic restructuring of the U.S. negotiating agenda.**

*American interest in a trade deal rests as much in a desire to develop the Mexican economy and maintain political stability as it does in increasing cross-border trade. These concerns form the ongoing subtext of any debate over free trade and are likely to influence U.S. choices at the bargaining table. **ESI believes that these U.S. objectives must be clarified to avoid making trade-offs between these goals and U.S. economic interests.**

*U.S. policy assumes that Mexico's liberalization program is modeled on the U.S. economy. But signs, indicate that Mexico could be patterning itself after the Newly Industrialized Countries (NICs) whose growth strategy is based on export-driven economies. A free trade agreement with a new, sizeable NIC could greatly increase the U.S. trade deficit. Low wages coupled with high productivity could easily make Mexico an export platform to the United States and Canada for fourth-country producers. The current U.S. negotiating approach contains no means of preventing this potential outcome. The rules of origin contemplated by the administration may curtail the establishment of foreign kit assembly plants in Mexico but will do nothing to stop a surge of foreign investment in Mexico aimed at cracking the American market. **ESI argues that in order to truly benefit from a NAFTA, the United States will need to secure investment liberalizations in Mexico that grant preferences to North American investors. This is likely to be the only way to halt a rush of foreign investment into Mexico aimed at the U.S. marketplace.**

ESI also believes that there are creative policy options which would increase trade with Mexico and encourage development while dampening displacement effects on the United States and Canada. **For example, increasing Mexico's share of textile and apparel in the North American marketplace. Such a move would not increase overall U.S. textile and apparel imports (a Mexican increase would be accompanied by a decrease in other nations' textile quotas) but would offer Mexico an opportunity to develop this industry.**

*In the United States, both environmental issues and labor concerns have come to the forefront of the free trade debate. Yet the tendency to dismiss environmental and labor groups as mere "special interests" is fundamentally misguided. Both environmental protection laws and minimum wage/workplace standards are key and legitimate strands of the American domestic policy fabric. **ESI views the upcoming negotiations as an opportunity to ease the tensions between America's domestic and trade agendas and recommends that these issues be addressed in a NAFTA. Negotiators may be able to begin harmonizing policies in the three countries by establishing a "band" or "range" of acceptable labor and environmental standards for trade purposes.**

If fast track is extended, the United States, Mexico, and Canada will soon begin negotiations on creating a North American Free Trade Area (NAFTA). The talks are expected to be modeled after the recent negotiations on the U.S.-Canada Free Trade Agreement (FTA), and to be concluded by the end of this year. Before the United States launches headlong into discussions, however, U.S. negotiators need a clearer sense of U.S. objectives supported by realistic expectations of what an agreement can accomplish. The Economic Strategy Institute believes that an agreement benefiting all three countries -- a win/win/win deal -- can be reached. But a dramatic restructuring of the U.S. negotiating agenda is needed first.

Opponents of any sort of agreement seem to ignore the increasing integration of the North American economies. This trend cannot be stopped. Denying fast track would deprive the United States of the opportunity to negotiate with the Mexican government. But denial would not stop or even significantly slow the growing integration of the Mexican and American economies. The question facing Washington is not whether U.S.-Mexican economic ties should be broadened, this is already happening.

Consequently, the challenge facing U.S. policy makers is to get the best agreement possible, one that turns as many of the costs as possible into potential benefits. Thus, ESI supports Congressional extensions of the fast track authority for the negotiations, but urges Congress to reach an agreement with the administration on specific stipulations and negotiating requirements to ensure that the costs of a free trade agreement do not exceed the benefits.

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Background

Countries usually enter into a free trade agreement based on the belief that lowering and eventually eliminating tariffs and nontariff barriers brings increased competition, greater productivity, improved efficiency, more jobs, higher standards of living, and lower prices for traded goods for all parties involved. Yet the three nations of North America are entering the talks for reasons markedly different from those listed here.

The United States hopes not only to liberalize commerce between the two countries and increase its exports to Mexico, but to speed the development of the Mexican economy (which by itself is expected to increase consumption of U.S. goods), to encourage the "right think" of President Salinas and his cabinet, and to lock in the recent Mexican economic and political reforms. In short, the Bush administration has in mind the long standing U.S. foreign policy goal of ensuring a stable Mexico.

The Mexican government is mainly interested in increasing investment in their country from around the world and hoping that the transfer of vast amounts of U.S. technology will be a part of this package. They also hope to lock in recent reforms by the Salinas government and also aim for assured access to and greater penetration of the U.S. market.

The Canadians have come to the table to ensure they are part of any North American trade discussion, and to prevent a Mexican deal from siphoning off the benefits they are expecting from their own FTA with the United States.

The reason the United States is rushing to negotiate is largely political; in this window of opportunity, the impetus for the U.S. interest in a trade deal lies as much in a desire to develop the Mexican economy and maintain political stability as it does in increasing cross-border trade. These non-economic concerns form the ongoing subtext of any debate over a free trade deal and are likely to influence U.S. choices at the bargaining table.

Using a free trade agreement to achieve multiple objectives is itself fraught with pitfalls. ESI believes that, rather than maintaining a hidden agenda, the United States should clarify its development and security objectives in order to understand where the trade-offs between these goals and U.S. economic interests are likely to arise. Indeed, it is because of these multiple objectives that the administration strongly supports a free trade agreement regardless of the minimal economic gains projected by the International Trade Commission (USITC).

Assessing Economic Benefits

U.S. negotiating objectives are to reduce tariff and non-tariff barriers, improve intellectual property rights protection in Mexico, establish an effective dispute settlement mechanism and eliminate investment restrictions. These are essentially the same goals sought by Washington in the free trade discussions with Canada. But this current U.S. approach to negotiations does not adequately address the potential costly economic effects of a NAFTA on the United States.

And current economic assessments are not adequate. As an example, the USITC report on economic effects of an FTA described the effect of free trade on the automobile and auto parts sectors as "uncertain". Yet, the automotive products sector forms the largest portion of U.S.-Mexico trade in manufactured goods. In 1989, U.S. imports totalled $4.9 billion and U.S. exports reached $3.4 billion. Together, they amounted to 16 percent of all U.S.-Mexico trade. A shift in automobile trade and investment would not only have a significant effect on the industry but also on the overall trade balance.

Despite the problems that it might create, an unvarnished FTA could still be worth pursuing if it held out the possibility of trade gains for the United States. But the "upside" of the prospective deal seems quite limited from the U.S. standpoint. U.S. benefits from a free trade agreement will depend on increasing both exports to and imports from Mexico. Mexico, however, is a developing economy in which per capita income averages $2200. Not only will population pressures surely keep wages low in the foreseeable future, but the economy will have to grow at 3 percent just to absorb new entrants into the workforce. Banamex indicates that Mexican imports for consumption totaled $2.3 billion in 1989. Even if imports for consumption grew at the phenomenal rate of 10% a year over ten years, these imports would equal barely $6 billion at the end of this period. A cumulative increase of $3.6 billion over ten years is hardly enough to sustain a massive export drive from the United States.

Further, the standard argument that $1 billion in U.S. exports creates 30,000 American jobs simply does not hold in much of U.S.-Mexico trade. According to U.S. trade statistics, the volume of U.S.-Mexican trade reached $52 billion in 1989 -- U.S. exports totalled $25 billion and U.S. imports equalled $27.2 billion. Yet the nature of America's trade with Mexico differs greatly from that of U.S. trade with other partners. The reason: Much of this trade rests solely on maquiladora operations.

An estimated $12.5 billion -- about half of U.S. imports -- come from maquiladoras. Of this $12.5 billion, $9.5 billion are goods that have been shipped first from the United States to Mexico (and counted as U.S. exports) Mexican laborers added $3 billion worth of value before the goods were returned to the United States. In essence, U.S. trade statistics show $22 billion of two-way trade where, in fact, America has done little more than import $3 billion worth of value-added from Mexican low-wage labor. And while it is true that in some cases maquiladoras have increased the competitiveness of American firms and created U.S. jobs, in the majority of these cases maquiladoras have displaced U.S. production.

Mexico has far greater potential to develop quickly as a production platform for export to the United States than it does to develop quickly --if at all-- as a vibrant consumer economy. And a strongly export-oriented Mexico could add significantly to the U.S. trade deficit. As the Economic Policy Institute points out, in newly industrialized countries low wages are accompanied by high productivity which exceeds their wage differential with developed countries. This strongly undercuts the traditional rationale for free trade agreements which assume that wage rates are closely associated with productivity levels and comparative advantage.

Most major multinational companies are predisposed to having a presence in all major regional marketplaces around the world. For this reason, increased economic incentives for investing in Mexico could bring not only labor-intensive production into the country, but higher value-added production as well. Do the United States and Canada really want to accelerate the emergence of another high-technology, low-wage competitor? And all of these problems will directly affect American prosperity and U.S. industrial strength.

Investment

At stake in the negotiations affecting investment in North America is nothing less than a sizeable chunk of America's economic future. If investment issues are not handled properly, U.S. competitiveness could be impaired by a massive influx of foreign firms investing in Mexico precisely in order to penetrate the U.S. marketplace. It is also essential to recognize that concern over investment in Mexico extends beyond the use of Mexico by foreign businesses as a base for kit assembly plants. Equally important is the issue of where firms set up plants to serve the North American market. The wrong kind of FTA could turn Mexico into one of the most attractive locations for these industries.

U.S. policy appears to assume that Mexico's liberalization program is modeled on the U.S. economy. But signs, indicate to some extent that Mexico is patterning itself after the Newly Industrialized Countries (NICs) whose growth strategy is based on export driven economies. A free trade agreement with a new, sizeable NIC could greatly increase the U.S. trade deficit.

Low wages coupled with high productivity could easily make Mexico an export platform to the United States and Canada for fourth-country producers. The current U.S. negotiating approach contains no means of preventing this potential outcome. The rules of origin contemplated by the administration may curtail the establishment of foreign kit assembly plants in Mexico but will do nothing to stop a surge of foreign investment in Mexico aimed at cracking the American market.

Other incentives militate for locating production in Mexico as well. A continually devaluing peso may cheapen the cost of investment in Mexico relative to the United States over the long term. Indeed, if there is a significant shift in exchange rates resulting in a stronger yen and a weaker dollar and peso, investment in Mexico will look more attractive than ever.

As argued above, much of the foreign investment that Mexico is seeking so avidly could be directed at the American marketplace, and thus threaten the competitiveness of both U.S. firms and the welfare of U.S. workers. Yet there are steps that can be taken to cope with this very real threat. U.S. trade policy in the General Agreement on Trade and Tariffs (GATT) has been to support the removal of trade related investment measures (TRIMs), policies often used by developing nations to expand their domestic production. Holding this position at the NAFTA talks will probably prevent the United States from realizing any significant economic gains. In order to benefit significantly from a NAFTA, however, the United States will need to secure investment constraints in Mexico that grant preferences to North American investors. This is likely to be the only way to halt a rush of foreign investment into Mexico aimed at the U.S. marketplace.

Those who criticize any foreign investment restrictions argue that the United States should concentrate instead on increasing its own attractiveness as an investment site. But an FTA could significantly offset even successful U.S. efforts, and damage American competitiveness. Whether firms choose the United States, Canada, or Mexico for their North American manufacturing facilities could well by determined by the outcome of free trade negotiations. A deal involving Mexico must contain mechanisms to assure that the investment flows help the U.S. economy. These mechanisms could vary from simple tax or regulatory breaks for North American investors in Mexico to a comprehensive trilateral investment regime designed to enhance regional competitiveness.

Such preferential treatment could always be vulnerable to the criticism that the United States does not place similar restrictions on the foreign investment that it attracts. Yet, allowing foreign firms to locate in the United States in the hope they will create high quality jobs is a far cry from allowing Mexico to become an export platform.

ESI recommends that Washington seek various kinds of investment preferences for North American investors in Mexico. This policy would ensure that the benefits of free trade are captured by the nations of North America rather than by fourth-countries. Indeed, if a free trade deal is to enhance American competitiveness, it must give North American firms an opportunity to rationalize production throughout the continent rather than allow fourth-country firms locating in Mexico to exert increasing competitive pressures on U.S. producers.

Mexico still maintains investment controls in several important areas. Some industries are constrained to 40 percent foreign ownership and some are entirely reserved for Mexicans. If these rules were liberalized specifically for U.S. and Canadian investors, all three nations would benefit through the rationalization of industry and increased competitiveness. Further, foreign multinationals considering their first investments in North America would be that much more likely to locate in the United States or Canada.

Another possibility would be to establish a North American Investment Regime that incorporates principles used by the U.S.-Canada pact's dispute resolution process. Such a mechanism would allow for the review of any prospective foreign investment in Mexico that damages U.S. competitiveness.

Many Americans fear that investment in Mexico will displace investment and production in the United States. Canadians worry that increased U.S.-Mexico trade under a NAFTA could displace many U.S-Canadian transactions. ESI believes that there are several creative policy options that would increase trade with Mexico and encourage development while dampening displacement effects on the United States and Canada. These include:

1. Increasing Mexico's share of textile and apparel in the North American marketplace. Such a move would not increase overall North American textile and apparel imports (a Mexican increase would be accompanied by a decrease in other nation's textile quotas) but would certainly offer Mexico a major opportunity to develop a potentially profitable industry.

2. American automobile manufacturers produce many low-end (smaller or lower-tech) automobiles overseas. These cars are then brought into the United States as "captive imports". As argued by James Womack of the International Motor Vehicle Program at MIT, in a rationalized North American marketplace, much of the low-end production would take place in Mexico. A policy that encouraged, through investment incentives or other means, the relocation of overseas "captive" production to Mexico would help the Mexican automobile industry without cutting into U.S. and Canadian production.

3.Mexico has seen little investment in infrastructure over the past ten years due to the financial pressures of the debt crisis. Further, its poorly developed infrastructure has been a limiting factor on investment and development in Mexico. ESI recommends that a Mexican infrastructure development plan be incorporated into a trade agreement, with North American firms granted preferences for contracts. Such an arrangement would be consistent with development objectives while providing valuable business opportunities for North American firms.

Environment and Labor Issues

In the United States, both environmental issues and labor concerns have come to the forefront of the free trade debate. Yet the tendency to dismiss environmental and labor groups as mere "special interests" is fundamentally misguided. Both environmental protection laws and minimum wage/workplace standards are key and legitimate strands of the American domestic policy fabric and this iron reality must be reflected in a NAFTA.

Mexican environmental laws resemble U.S. laws but are rarely enforced. Thus, not only do Mexican plants pollute more than their American counterparts, but by avoiding the high price of environmental controls, they also maintain a cost advantage.

U.S. wage levels and worker protection standards unquestionably raise the cost of production in the United States and encourage companies to seek lower wage bases of production as well as imports from foreign producers such as Mexico, who maintain a cost advantage through low wages and frequently sweatshop-like conditions.

ESI views the North American free trade negotiations as an opportunity to ease these tensions between America's domestic and trade agendas. Negotiators may be able to begin harmonizing policies in the three countries by establishing a "band" or "range" of acceptable labor and environmental standards for trade purposes. Like other elements of an agreement, environmental and labor provisions could be phased in over a ten-or-twenty year period in order to allow adequate time for adjustment.

Chairman GIBBONS. Thank you.
Mr. Riley.

STATEMENT OF BRYAN RILEY, DIRECTOR OF TRADE POLICY, CITIZENS FOR A SOUND ECONOMY

Mr. RILEY. Mr. Chairman, I would like to thank you for the opportunity to appear here today on behalf of CSE's 250,000 members. Our members are average Americans who believe in open markets and free trade, and all too often I believe their views are overlooked when making trade policy.

For example, you are probably familiar with this ITC study, "The Effects of a Free Trade Agreement With Mexico," which overall I think is an excellent study. If you read it closely, you will see consumers mentioned only three or four times, and I just do not think you can make trade policy without considering how that policy is going to affect the vast majority of Americans.

Some people say that we need to protect American jobs from Mexican competition. This is not really a new argument. Personally, I do not think anybody really believes that protectionism saves jobs. Imagine if each State followed this logic and protected their industries. You would have people in Kansas, instead of importing oranges from other States, trying to grow oranges themselves; or people in New York try to grow their own food, making everyone worse off. I think the same logic applies when the United States trades with Mexico.

When the United States tried to protect 17,000 jobs in the steel industry, we lost more than 50,000 jobs in steel-related industries. For every job we protect in the textile industry, consumers pay $100,000. Protectionism just allows the politically powerful to prosper at the expense of everyone else, to the tune of $1,200 a year for the average family of four.

On the other hand, free trade is good policy, whether it is the United States trading with Mexico, or whether it is California trading with Illinois. In the case of Mexico, the figures vary, but from 300,000 up to 1.5 million jobs, depend on exports to Mexico. Ironically, some of the States from where we have heard the most concern about effect of free trade on jobs export millions of dollars of products to Mexico every year.

Mr. Chairman, I believe if you and your committee is concerned about jobs, then you should support a North American free trade agreement, because if Japan and Germany have access to low-wage workers and if American companies do not, then 5 or 10 years down the road, when Chrysler is closing its doors and when GM is cutting back production because it cannot compete with Toyota, Nissan and Volkswagen, that is when we are really going to find out what job losses are about.

As a matter of fact, I was on the phone just this morning with somebody from a border town who told me about firms relocating to the maquiladora border region, not from the United States to Mexico, but from Taiwan to Mexico. In that case, you will see more jobs created in the United States, than if companies are forced to locate overseas.

Furthermore, when you look at the numbers, there is just no support to the claim that American investment in Mexico costs the United States jobs. From 1975 up until 1990, American investment in Mexico increased, and as the number of maquiladora firms increased dramatically, United States manufacturing unemployment actually declined and United States manufacturing wages increased. Obviously, one did not necessarily cause the other, but as investment in Mexico increased, American workers were not made worse off.

Also, concerns have been expressed about Mexican workers. I would just like to say that if you are concerned about Mexican workers, the worst thing you would do is lock them into third-world poverty. Free trade means economic growth for Mexico and it means the workers in the long run will be able to prosper and enjoy an improved standard of living.

Finally, free trade is actually not likely to hurt the environment, but could even help it, as the ITC study pointed out. Until recently, maquiladora firms were more or less forced to locate along the border region in a 12-mile strip bordering the United States, and obviously that caused environmental pressures on the United States.

Already, since the requirements have been loosened, we are seeing firms locate deeper in the heart of Mexico, and a free trade agreement would encourage this trend and I think lessen the pressures on the border region. At the same time, free trade would give Mexico resources to enforce its environmental laws.

It recently established the equivalent of the Environmental Protection Agency, with U.S. Government help, and has actually closed plants for violation of their environmental laws.

Mr. Chairman, there are not many principles that economists agree on, but I think free trade is one. I am sure if you or any member of your committee called up a professor in any university in their local district, they would probably be likely to get the same response: free trade is good for their constituents.

I am sure that a number of members of your committee will have doubts about the effect of Mexican free trade and North American free trade on their constituents, and those doubts obviously often are sincere. I just hope that, instead of killing the agreement before it starts by voting against the fast-track process, they will allow the negotiations to continue and make their decision based on the final agreement.

I appreciate the chance to testify, and I would be glad to answer any questions.

Thank you.

[The prepared statement follows:]

TESTIMONY OF BRYAN RILEY, DIRECTOR OF TRADE POLICY
CITIZENS FOR A SOUND ECONOMY

My name is Bryan Riley, and I am director of trade policy at Citizens for a Sound Economy (CSE), a nonpartisan research and educational organization dedicated to solving pressing national problems in ways that promote economic growth and opportunity. I'm especially glad to have the opportunity to appear before you today because CSE's members -- 250,000 individuals who contribute small amounts to help keep our doors open -- are among the millions of average Americans who would gain from a North American Free Trade Area consisting of the United States, Mexico, and Canada. Unfortunately, consumers are often the forgotten player in trade policy. I am grateful for the chance to represent them here today.

Economists have long recognized that free trade is something that countries should not enter into out of the goodness of their hearts, but because it is good policy for countries that practice it. Nations that open their markets achieve a competitive advantage over those that keep their markets closed, and their citizens enjoy a higher standard of living. I'm sure that if any of you left this room, called a university or college in your district, and spoke to a member of the economics department, he or she would be likely to tell you that trade barriers hurt America. Fortunately, I think most policymakers have come to accept this idea, at least in principle. Nevertheless, some legislators have expressed genuine concern about the effect of a North American Free Trade Area on the United States.

WHY AMERICA SHOULD PURSUE FREE TRADE

Congress would make citizens better off by tearing down all our trade barriers tomorrow, regardless of what policies the rest of the world pursued. Those who doubt this claim should look at our own history. Can you imagine if each of the 50 states had the ability to regulate imports from the other 49 states? As each state "protected" its workers and industries from competition from other states, all of us would be made worse off. Fortunately, the framers of our Constitution wisely denied states the power to regulate interstate commerce, and America prospered. It would be the height of irony if, at the same time the European Community (EC) was taking a lesson from the United States and tearing down its internal trade barriers, the United States walked away from a free-trade zone comparable in size, population, and economic power to the EC.

Trade barriers are usually justified as necessary to protect jobs from competition and to make businesses more competitive. But, more commonly, protectionism allows politically-connected organizations to protect themselves from competition at the expense of average Americans. Gary Hufbauer of the Institute for International Economics has estimated that trade barriers increase the cost of imported goods by about 20 percent while allowing American firms to boost prices 10 to 14 percent. He calculates as of 1988 that trade barriers cost Americans $80 billion annually, or more than $1200 per family of four.

Trade barriers not only cost Americans money, they also run contrary to American ideals. Every time the government interferes with the ability of Americans to freely choose how to spend their money, it chips away at the principles upon which our country was founded.

HOW AMERICANS WOULD BENEFIT FROM NORTH AMERICAN FREE TRADE

I understand that Congress is not going to unilaterally remove American trade barriers overnight. That's why trade

agreements are so important. By trading lower U.S. barriers for lower barriers overseas, we create a "win-win" situation. The General Agreement on Tariffs and Trade (GATT) illustrates the success of this approach: since 1947, average tariffs on manufactured goods have fallen from 40 percent to around 5 percent, world trade has exploded, and America -- the world's largest exporter -- has prospered. Meanwhile, the volume of both international trade and world output has grown steadily.

With the future of GATT in question, North American free trade becomes even more important to the United States. Lowering obstacles to trade with Mexico in particular is a phenomenal opportunity for Americans. Despite its relative poverty, Mexico is already our third-largest export market, representing an estimated $29 billion in exports in 1989. The International Trade Administration calculates that as of 1987 315,000 U.S. jobs depended on exports to Mexico, and export volume has increased sharply since then -- 21 percent during 1989 alone. A growing Mexican economy that remained open to U.S. exports would continue to create enormous benefits into the future. And despite concerns that free trade would adversely affect some regions of the United States, the benefits of trade with Mexico are spread throughout the country. As Table 1 demonstrates, even industrial states gain significantly from exports to Mexico.

Table 1:
1989 exports to Mexico from five industrial states

State	Exports
Illinois	$ 569,203,128
Pennsylvania	$ 521,574,063
Indiana	$ 203,960,573
Ohio	$ 464,034,262
Michigan	$1,720,557,920

Source: Massachusetts Institute for Social and Economic Research.

At the same time, consumers would benefit from lower-priced Mexican imports. The average 4 percent U.S. tariff means that consumers paid about $1 billion more than they should have for the $27.2 billion of Mexican imports in 1989. While free trade would lower prices for many different products, it would in particular make fruits, vegetables and clothing more affordable. Who can possibly object to cheaper food and clothes for American families -- especially for the poor?

You have all heard about the potential negative effects of free trade on particular industries and specific regions of the country, but I urge you to also think of American consumers when you finally cast your vote. Too little has been said on their behalf. For example, many of you may be familiar with the recent International Trade Commission (ITC) study, The Likely Impact on the United States of a Free Trade Agreement With Mexico. Overall, it's an excellent analysis. However, if you read it closely, you will see the word "consumer" only three or four times, mostly when the ITC refers to other studies. The ITC report is not exceptional in this regard, but rather is representative of the negligible efforts made at examining the effects of free trade on consumers. When you make your final decision on North American free trade, I hope that you consider not just the special interests, but the millions of Americans who stand to gain from open markets.

OBJECTIONS TO NORTH AMERICAN FREE TRADE

The benefits of free trade will not all occur immediately, but rather over time. Unfortunately, workers who will have jobs

20 years from now because of exports to Mexico, or because money that would have been spent on tariffs was spent on American products instead, or because of increased U.S. economic growth, are hardly in a position to lobby Congress for North American free trade. By contrast, workers who might be negatively affected in the short run by a trade pact will actively work to defeat it.

Congress will have to consider three general objections to a free trade agreement: the effect of free trade on American workers, on Mexican workers, and on the environment.

o How will free trade affect American workers?

The argument that workers will lose under free trade has been largely overstated. The bottom line is that free trade creates jobs. Consider the example of American oil imports. If we decided to stop importing oil, it would make some Americans involved in the energy industry better off. But it would hurt many more Americans as higher prices threw people out of work and made it harder to buy almost everything manufactured in the United States. I use the example of oil because it's obvious — that without oil imports, the United States would be poorer. The same reasoning applies to other imports. For instance, in the 1980s the government restricted steel imports in order to protect 17,000 jobs in the steel industry. According to Arthur T. Denzau of the Center for the Study of American Business, the barriers cost 52,400 jobs in steel-related industries, for a net loss of more than 35,000 jobs. Similarly, every job "saved" by protectionism in the textile industry costs consumers $100,000.

Opponents of free trade argue that since Mexican workers earn lower wages than American workers, U.S. businesses will flock to Mexico, leaving American workers unemployed. However, such arguments ignore the role of infrastructure, productivity, and other factors that affect where firms locate plants. As others have mentioned, if wages were the sole determinant of plant location, no factories would exist in California or New Jersey; they'd all be in Mississippi, if not Haiti or Taiwan.

In addition, when you look at the numbers, there's no correlation between investment in Mexico and American jobs. In fact, Table 2 illustrates that as American investment in Mexico increased, manufacturing unemployment in the United States declined and manufacturing wages in the United States increased.

Table 2:
Investment, unemployment, and wages, 1975-1990

Year	Number of maquiladora plants	U.S. direct investment in Mexico (in billions of dollars)	U.S. manufacturing unemployment rate	Average U.S. manufacturing wage
1975	454	$3.2	10.9%	$ 4.83
1980	620	6.0	8.5%	$ 7.27
1985	789	5.1	7.7%	$ 9.54
1990	1850(est.)	7.1[a]	5.8%	$10.84

[a] 1989; 1990 data currently unavailable

Source: Mexican Secretariat of Programming and Budget, Mexican Secretariat of Commerce and Industrial Development, Bureau of Labor Statistics, Bureau of Economic Analysis.

In addition, the recent ITC study concluded that a free-trade agreement would increase real income in the United States, and while real income for unskilled workers could decline

slightly, "some plausible scenarios suggest that it could actually increase." It also noted that despite some highly publicized concerns, no region is likely to be adversely affected by free trade. Ironically, many of the complaints about increased trade with Mexico are coming from those regions that gain the most from exports of manufactured goods. As Table 3 indicates, a significant amount of manufacturing employment in the 10 largest export states is due to trade.

Table 3:
United States export-related manufactures and employment by state

State	Export rank in 1981	Export related manufactures (in millions of dollars)	Employment for export as percent of manufacturing employment	Total employment related to manufactured exports (thousands)
U.S., total	--	$271,703	12.8	4,794.0
California	1	27,399	14.5	526.5
Texas	2	22,651	12.7	285.5
Ohio	3	18,132	14.7	284.0
Illinois	4	17,039	12.9	275.4
Michigan	5	15,512	14.6	218.9
Pennsylvania	6	15,485	13.2	284.1
New York	7	15,260	11.4	372.0
Washington	8	10,773	26.3	121.9
Indiana	9	9,692	13.3	140.3
New Jersey	10	8,204	11.9	175.0

Source: Department of Commerce

The real question is not whether some jobs will move abroad, but whether they will move to Mexico instead of Singapore, Taiwan, or Korea, and whether Mexican workers will continue to emigrate to the United States. Firms discouraged from locating in Mexico will likely locate overseas. It makes much more sense to keep such businesses close to home where American firms can supply them -- just ask the 100,000 Americans who supply the maquiladora industry. Mexican workers are also much more likely to spend their earnings on U.S.-made goods than Korean workers. Moreover, if American firms don't have access to low-wage workers, while businesses in Japan and the EC do, foreign companies will gain a competitive edge over American firms.

Finally, when you think of workers, you also have to keep in mind that workers are consumers. They will benefit as much as anyone else, if not more, from lower-priced imports.

o How will free trade affect Mexican workers?

Some Americans have expressed concern that Mexican workers don't have the same protections that U.S. workers do. But if you are really concerned about Mexican workers, the one thing you don't do is lock them into third world poverty. Free trade is an antidote to poverty. It would mean economic growth for Mexico as well as the United States. That entails higher living standards and better working conditions for Mexicans. An improved work environment and the ability of workers to form unions in the United States came about, in part, because of our economic growth. The same will happen in Mexico.

Moreover, companies that locate in Mexico will have to comply with a series of regulations that in some cases are even more stringent than U.S. labor laws:

* Mandated minimum wage

* Mandated benefits of 50-60 percent above the minimum wage
* Maximum 48-hour workweeks
* Mandatory overtime pay
* Mandatory vacation leave
* Mandatory Christmas bonus
* Mandatory severance pay
* 1-month notice of dismissal
* Mandatory profit sharing
* Right of workers to strike

Congress should also consider that where concerns exist over working conditions in Mexico, that's an issue for Mexico to deal with, not the United States. For the United States to dictate to Mexico what their labor laws should be would only breed resentment toward our country. Can you imagine the reaction if Japan came to Congress and said: we won't trade with you unless you adopt Japanese labor laws? Mexico is likely to respond the same way to U.S. pressure.

o How will free trade affect the environment?

This is actually a two-part question: how will free trade affect the environment in the United States, and how will it affect the environment in Mexico?

In the United States, free trade will likely have a positive effect on the environment. As the ITC study pointed out, North American free trade "would reduce the incentive for such firms [maquiladoras] to locate themselves near the border." This lessening of investment on the border would mean less environmental worries for the United States, since most environmental concerns result from industrialization along the border region.

Until recently, Mexican laws effectively confined maquiladoras to a 12 mile strip bordering the United States. Out of a total area of 761,601 square miles, maquiladoras were forced into a 23,220 square mile strip. It's no wonder that environmental conditions suffered. But without this artificial barrier, the situation should improve. Indeed, with the change in the law, maquiladoras are already springing up in Mexico's interior.

The effect of trade on the Mexican environment is less clear, but CSE suspects that here again environmental conditions will improve. Trade will certainly give Mexico more resources to enforce its environmental laws. There's also a chance that American firms that locate in Mexico also will take some of their environmental and labor standards with them. However, as with labor laws, this is an issue for Mexico to decide -- not the United States. Where the United States does have concerns, we should address them in the appropriate forum, not in trade negotiations.

FAST-TRACK APPROVAL

North American free trade will be moot if Congress removes the fast-track authority that allows the president to negotiate. The benefits of expanded trade with Mexico, and of a GATT agreement as well, would likely be lost. Each of you have a number of concerns to take into account before making a decision about a North American Free Trade Area. I urge you to wait to make such a judgment until after the negotiations are completed, not before they begin. A resolution of disapproval on the fast-track process would derail the potential benefits of a trade agreement without the opportunity for public debate on the agreement itself.

TWO POSSIBLE FUTURES

While Mexico has dramatically lowered its average tariff to around 10 percent in recent years, Americans have no guarantee that Mexico will remain open. Mexico can unilaterally raise its tariffs to 50 percent, and it has nationalized industries in the past. A free-trade zone would make it much more difficult for future Mexican governments to reverse the progress made by the Salinas administration. Free trade would also contribute to political stability in Mexico, lessen immigration pressures on the United States, create a growing market for American exports, and serve as a model for other nations.

Failure to get an agreement would threaten American access to the Mexican market. As U.S. exports to Mexico approach $30 billion, as American investment in Mexico grows, and as the multilateral trading system threatens to collapse, we need an agreement more than ever. So does Mexico: it would suffer even more in its struggle to join the ranks of economically and politically developed countries without access to the U.S. market.

On behalf of CSE's 250,000 members, I hope you will side with open markets and economic growth.

Chairman GIBBONS. Thank you, Mr. Riley.
Mr. Duggan.

STATEMENT OF E. MARTIN DUGGAN, EXECUTIVE DIRECTOR, SMALL BUSINESS EXPORTERS ASSOCIATION

Mr. DUGGAN. Thank you, Mr. Chairman.

Mr. Chairman, it is a pleasure to be here this afternoon on behalf of the Small Business Exporters Association. Basically, we are in favor of a free trade agreement, but we have some reservations and we have a number of questions which we feel should be answered before entering into any agreement.

A free trade agreement that is equitable and beneficial to the economic interests of all signatories is a good deal, but the days of politically or defense-inspired justification for unbalanced or inconceived trade related agreements or policies are gone. The United States and our people can no longer afford the luxury of agreements or treaties that subordinate our basic economic interests, while perpetuating the interests of others.

There have been many conflicting points of view regarding the Mexican Free Trade Agreement, and I will not pursue those. We do recognize that the liberalization of trade restrictions in the direction in which Mexico is moving under President Salinas is very encouraging, and they are to be commended for it.

We must remember, however, that trade barriers, impediments, tariffs and the whole range of antitrade positions confronting U.S. producers regarding Mexico were made pretty much in Mexico. Much of what would be accomplished by an FTA would be accomplished by the removal of the restrictive policies the Mexican Government has had in place for so many years.

In looking to the future of trade relations with Mexico and the world, the administration, and especially the Congress, are trying to create a utopia at home. While still living in the real world, we should be examining tax policy, equal opportunity laws and regulations, product liability, environmental and the myriad of laws, regulations and social programs that have a direct impact on our ability to be competitive worldwide. We need information on how these laws, regulations and so forth compare with those imposed on our principal trading partners.

We also believe that a comprehensive review, on a nationwide basis, should be undertaken to determine as closely as possible the impact an agreement with Mexico will have on small U.S. manufacturers. The National Governors' Association has assigned its International Trade Committee to conduct regional meetings throughout the country to get grassroots response to the issues raised or the potential issues raised by an agreement.

The Small Business Export Association will be working with them to gather firsthand testimony from a wide variety of small and midsize producers, to determine the potential impact, good, bad or indifferent, of this issue. If the Governors feel that input is still necessary to shape an equitable agreement, it seems logical that they should be allowed sufficient time to complete their efforts.

We would need approximately 4 months to complete these hearings and prepare a report that would be submitted to the Governors at their August meeting.

The bottom line, from our perspective, is that those who will negotiate the free trade agreement need to hear from the informed small business community that has an understanding of the issues from a wider scope than the Fortune 500's perspective. It is unfortunate that this issue should be on a fast-track along with the GATT negotiations. There should not be any linkage between the GATT and an FTA. If it is going to take 2 more years on an extension for the GATT, why could it not take 2 more years for a free trade agreement with the Mexicans. Why should we be forced to rush into one, when the other came to such an unsatisfactory conclusion, after long and tedious negotiations?

This is a most serious question you have before you. I know you will try to come to grips with it in a way that is fair and equitable to all segments of the American economy. Our multinationals have spoken in favor of this agreement, and I think we ought to take time to hear from the rest of America.

Thank you, sir.

[The prepared statement follows:]

TESTIMONY OF E. MARTIN DUGGAN
SMALL BUSINESS EXPORTERS ASSOCIATION

The Small Business Exporters Association is in favor of Free Trade - when it is equitable and beneficial to the economic interests of all signatories. The days of politically or defense-inspired justification for unbalanced, or ill-conceived trade-related agreements or policies are gone. We, the United States and our people, can no longer afford the luxury of agreements or treaties that subordinate our basic economic interests while perpetuating the interests of others.

There have been many conflicting points of view regarding the Mexican FTA. We will not pursue those. We do recognize that the liberalization of trade restrictions and the direction in which Mexico is moving under President Salinas is very encouraging and they are to be commended for it. We must remember, however, that trade barriers, impediments, tariffs and the whole range of anti-trade positions confronting U. S. producers are "Made in Mexico". Much of what would be accomplished by an FTA would be accomplished by the removal of the restrictive policies the Mexican government has had in place for so many years.

In looking to the future of trade relations with Mexico and the world, the administration and especially the Congress, are trying to create Utopia at home. While still living in the real world, you should examine tax policy, EEOC, product liability, environmental and the myriad of laws, regulations and social programs that have a direct impact on our ability to be competitive worldwide. We need information on how these laws, regulations, etc., compare with those imposed on our principal trading partners.

We also believe that a comprehensive review, on a nationwide basis, should be undertaken to determine as closely as possible, the impact an Agreement with Mexico will have on small U. S. manufacturers. The National Governors' Association has assigned its International Trade Committee to conduct regional meetings throughout the country to get the grassroots response to the issues raised by an Agreement. The Small Business Exporters Association will be working with them to gather first-hand testimony from a wide variety of small/midsized producers to determine the potential impact - good, bad or indifferent - of this issue. If the governors feel that input is still necessary to shape an equitable Agreement, it seems logical that they should be allowed sufficient time to complete their effort. We would need approximately four months to complete these hearings and prepare a report that would be submitted to the governors at their August meeting.

The bottom line, from our perspective, is that those who will negotiate the Free Trade Agreement need to hear from an informed small business community that has an understanding of the issues from a wider scope than the Fortune 500. It is unfortunate that this issue should be on a fast track along with the GATT negotiations. There is no linkage between the Gatt and an FTA with Mexico. Why should we be forced to rush into one when the other came to an unsatisfactory conclusion after long and tedious negotiations.

Gentlemen, this is a most serious question you have before you. I know you will try to come to grips with it in a way that is fair and equitable to all segments of the American economy. Our multi-nationals have spoken in favor of this Agreement. Let's take time to hear from the rest of America.

Chairman GIBBONS. Thank you, sir.

Mr. Nelsen.

[By permission of the chairman, the following was submitted by the National Governors' Association:]

NATIONAL GOVERNORS' ASSOCIATION

Booth Gardner
Governor of Washington
Chairman

John Ashcroft
Governor of Missouri
Vice Chairman

Raymond C. Scheppach
Executive Director

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March 6, 1991

Mr. Robert Leonard
Trade Counsel
Ways and Means Committee
1102 Longworth House Office Building
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Leonard:

This letter is in response to a written statement submitted last week by a private association during the February 28 Trade Subcommittee hearing on North American free trade in which the National Governors' Association was mentioned. The context of that statement by the Small Business Exporters' Association may have been misleading concerning NGA's policies and activities, so I would like to clarify the matter for your hearing record.

The NGA International Trade and Foreign Relations Committee, chaired by Governor Tommy G. Thompson of Wisconsin, is planning to conduct some regional hearings over the next several months on the subject of North American free trade. Through this effort, the Committee hopes to elicit views from a broad array of interested parties. NGA is not cooperating with any single entity in pursuit of these hearings. Information from various perspectives will be useful in helping shape the Governors' policy as the negotiations proceed.

In the meantime, the Governors have endorsed the development of a North American Free Trade Agreement and they have indicated that such an agreement, if negotiated in consultation with states and private interests, should qualify for fast-track consideration. This policy was outlined in a February 19 letter to the leadership of your committee, a copy of which is enclosed.

The Governors look forward to working with the Congress and the administration in helping to achieve a trilateral agreement that is in the best interest of the United States. We anticipate there will be ample opportunity in the coming months to share the states' perspective on this subject.

Thank you for the opportunity to contribute to the Committee's hearing record.

Sincerely,

Raymond C. Scheppach

Raymond C. Scheppach

Enclosures

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February 19, 1991

The Honorable Sam M. Gibbons
Chairman
Subcommittee on Trade
Committee on Ways and Means
U.S. House of Representatives
1136 Longworth House Office Building
Washington, D.C. 20515

Dear Mr. Chairman:

The National Governors' Association at its recent winter conference adopted major new policies regarding international trade agreements. We enclose copies of these policies for your information and hope they will prove useful to you as your subcommittee deliberates these issues over the coming weeks.

The revised statement on GATT negotiations amends our position on services and government procurement and adds new sections on agriculture, subsidies, product standards, and compliance costs. These are some of the aspects of a Uruguay Round agreement that are most important to states because they could directly affect the states' special role in such areas as regulating services, developing environmental and safety standards, and initiating programs that further economic development. We also added a section on recommended actions by Congress and the administration if negotiations are not successful.

"Bilateral and Regional Trade Agreements", refers to trade with Canada and Mexico and endorses the development of a North American Free Trade Agreement. If the negotiations are conducted in consultation with states and private interests, the Governors support "fast-track" consideration of an agreement. Obviously, much remains to be seen as to the potential impact of such an agreement on state economies. We will continue to focus considerable attention on this subject in the coming months and look forward to future opportunities to share our insights with you.

If you or your staff have questions or comments about these policies, please contact Ms. Jody Thomas, committee director, at (202) 624-7824.

Sincerely,

Governor Tommy G. Thompson
Chairman
Committee on International Trade
and Foreign Relations

Governor John Waihee
Vice Chairman
Committee on International
Trade and Foreign Relations

Enclosures

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H-9. GATT NEGOTIATIONS

9.1 Introduction

The Governors affirm our support for the successful conclusion this year of the Uruguay Round of Multilateral Trade Negotiations now underway within the framework of the General Agreement on Tariffs and Trade (GATT). This multilateral effort to develop a comprehensive set of rules for trade between nations is essential, given the growing trend toward international economic interdependence. The round will help to anchor the emerging democracies of Latin America and Eastern Europe into an open, market-driven trading system. We applaud efforts by GATT members to:

- Expand application of GATT rules beyond manufactured goods to encompass agriculture, services, intellectual property, and investments;
- Strengthen GATT enforcement provisions and improve dispute settlement mechanisms;
- Examine the role of developing countries and seek ways to encourage their full and active participation in the GATT;
- Focus on the impact that broad national policies and practices (e.g., targeting, subsidies, standards, and procurement) may have on international trade; and
- Expand trade and increase market access opportunities.

States, as active participants in the international economy, have a strong interest in the outcome of this effort. The round should bring new opportunities to the states and could provide many potential benefits. States have a special role in certain areas covered by the negotiations, including services and agriculture. States could also be affected by new agreements on government procurement, subsidies, product standards, and investment.

Because of the importance of a successful agreement to the future of the international trading system, the Governors are concerned that progress in the talks seems to have stalled. GATT members should make every effort to salvage the negotiations and achieve the mutually agreed upon goals of the Uruguay Round in a timely manner.

9.2 Trade in Services

The Governors affirm their support for multilateral negotiations on services trade. In seeking to establish an international framework and related sector liberalization commitments, U.S. officials should be guided by the general principles of market access, including the ability to compete with government monopolies, national treatment (no discrimination against foreign firms), the recognition of intellectual property rights, and transparency of laws, regulations, and procedures regarding services transactions.

Because of the special state regulatory role, it is imperative that the federal government continue to consult fully with Governors or their designees on international rules affecting service industries and that state views be incorporated in the U.S. negotiating position and implementing legislation. The Governors would oppose efforts to preempt the states' traditional role in regulating service industries, and encourage the federal government to seek voluntary means of achieving state adherence to an international services agreement. The federal government should work with states to develop

mechanisms to keep Governors informed on and to solicit their input for any bilateral and multilateral negotiations on international trade in services.

9.3 **Agriculture Trade**

Reform of agricultural trade practices must be included in order for the negotiations to be considered successful. In particular, elimination of the world's export subsidies should be prioritized.

The Governors urge Congress to adopt legislation implementing a successfully negotiated GATT agreement that is consistent with the following principles:

- Priority should be given to measures that ensure the viability of our domestic agricultural industry.
- Income protection for farmers should remain an important means of ensuring adequate supplies of food at stable prices.
- Programs designed to conserve our natural agricultural resources, maintain a strategic food and land supply, protect against the effects of natural disasters, and improve the quality of life in rural areas should not be subject to discipline under GATT as long as they have no significant trade-distorting effects.

Any policies that will substantially change the domestic policy of any GATT participant should be phased in.

9.4 **Government Procurement**

Where there are clearly defined benefits to the states, the Governors support considering the elimination by the states of GATT agreement-inconsistent price preferences and set-asides in state government purchasing practices, where such preferences and set-asides discriminate against signatories to the GATT agreement. Elimination of such practices should be made on a negotiated basis and with the advice and full consent of each state that chooses to participate; should apply only to suppliers from countries that are signatories to the GATT agreement on government procurement; and should be made in exchange for removal of such preferences and set-asides that discriminate against U.S. suppliers.

9.5 **Government Subsidies**

Improved disciplines on subsidies are essential to a successful GATT agreement. Yet international rules should not unduly restrict the ability of states to pursue efforts aimed at maintaining and improving their economies. Development programs that are generally available within the state should not be defined as a subsidy under international subsidies rules. Programs aimed at helping economically disadvantaged regions and encouraging research and development should be permitted if defined in a manner that limits trade distortions. Also, states should be allowed to continue with smaller development programs that are not significantly trade-distorting.

9.6 **International Product Standards Development**

The Governors recognize the need to strengthen international disciplines on the development of product standards and technical regulations in order to minimize their use as barriers to trade.

States have a legitimate role in setting standards, especially in matters of public safety and environmental protection, that should not be unduly constrained. Also, states must have the ability to set standards that are stricter than federal requirements, as long as such standards are nondiscriminatory and scientifically based.

9.7 **Administrative Costs of Compliance**

A comprehensive GATT agreement will take time and resources to implement. The federal government should make every effort to minimize the administrative costs of implementation to states. Cost estimates should be an integral part of the negotiating and implementing process and states should be consulted to determine the most cost-effective ways to achieve the goals of a GATT agreement.

9.8 State-Federal Consultation

We support the consultation approach between the U.S. Trade Representative (USTR) and the Governors as provided for by the USTR Intergovernmental Policy Advisory Committee, as well as the committee process with NGA and various regional Governors' organizations. We recommend that this process be continued and enhanced as the means of state-federal consultation during the Uruguay Round and throughout the phase of domestic implementation.

9.9 Failed Negotiations

In the event that the Uruguay Round does not produce a comprehensive agreement, the Governors urge the administration and Congress to utilize all tools available to achieve the policy goals outlined above. Such tools include but are not limited to expansion of the export enhancement program (EEP), review of policy on mixed credit and tied-aid packages, increased appropriations for the Agriculture Market Promotion program, and aggressive pursuit of remedies for unfair trade practices.

Adopted February 1988; revised July 1990 and February 1991.

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H-7. BILATERAL AND REGIONAL TRADE AGREEMENTS

7.1 **U.S. - Canadian Trade**

7.1.1 **Introduction.** The Governors support implementation of the Free Trade Agreement negotiated by the federal governments of the United States and Canada. While the agreement did not fully address all issues relating to our bilateral trade, it is contributing to real growth in the economies of both signatories. It represents a positive step toward the open, competitive world trading system that we have endorsed. It provides for more timely and effective resolution of disputes between the two largest trading partners in the world.

Emphasizing the importance of U.S. - Canadian relations, we will continue our meetings with the Canadian Premiers on issues of mutual interest, including options for greater trade cooperation between our two countries.

7.1.2 **Unresolved Issues.** We believe that efforts should continue to be made to resolve those issues not fully addressed during the negotiations and that remaining inconsistencies with the General Agreement on Tariffs and Trade (GATT) rules should be vigorously pursued. We will work with Congress and the administration and within our states to minimize any adverse effects of the agreement.

The Governors have significant concerns about issues created or not fully resolved by the agreement and ask to be consulted as negotiations, implementing legislation, or other measures are developed to ameliorate these problems.

The administration has entered into additional negotiations to address subsidies issues. Fair and open trade for all businesses requires equal treatment of industries regardless of differing national policies on subsidies. The Governors look forward to additional consultations on these and other negotiations.

7.2 **U.S. - Mexico Trade**

7.2.1 **Introduction.** Recent economic reforms in Mexico have made increased cooperation on trade and investment possible. The Governors support efforts by the federal government to negotiate a free trade agreement between the United States and Mexico. Such an agreement should be as comprehensive as possible, addressing the broadest array of trade and investment issues, and should be sensitive to the implications for the environment, labor markets and conditions, regulatory and standard-setting practices, and particularly sensitive industries. If developed in consultation with states and private interests, the agreement should qualify for the congressional "fast-track" process.

7.2.2 **North American Free Trade Agreement.** As a key North American trading partner, Canada should have a role in comprehensive free trade talks. Trilateral talks should be held for the development of a North American Free Trade Agreement.

7.2.3 **Factors for the Negotiations.** We will seek to identify the likely impact of a free trade agreement on state economies and state regulatory practices. Further, we will seek to ensure that the U.S. negotiators are aware of our findings so that the final agreement will be based on a full understanding of its effect on American workers and industries. Moreover, no state should bear a disproportionate share of the impact of implementing the agreement.

The Governors recognize that currency fluctuations and exchange rate differences can have a dramatic effect on a company's ability to compete in international markets. U.S. negotiators should give due attention to currency issues in the free trade agreement talks.

In addition, the effect on U.S. competitiveness of differing regulatory schemes (e.g., health, safety, environmental) and adequate regulatory enforcement should be addressed.

To the extent that a GATT agreement is achieved, it should serve as the starting point for negotiations with Mexico.

7.3 **Western Hemisphere Trade**

The President's "Enterprise for the Americas" initiative holds considerable potential for expanding trade throughout the hemisphere and for enhancing economic development. States should explore opportunities for increasing contacts with countries in the region.

Adopted February 1988; revised February 1991.

STATEMENT OF PETER T. NELSEN, PRESIDENT, INTERNATIONAL TRADE COUNCIL

Mr. NELSEN. Mr. Chairman, I am Peter T. Nelsen, president of the International Trade Council, a trade association that represents about 850 exporters and importers throughout the United States. We have employees in 49 of the 50 States and represent a very broad cross section of U.S. industry.

We have done a number of studies and a lot of studies have been done over time on the issue of free trade. We wrote the first proposal on bilateral reduction of trade barriers or free trade agreements in 1979, which led to the free trade agreement with Israel and subsequently with Canada. The Mexico agreement is a logical extension of that, and we urge it to stay on the fast track. The subject has been studied and over-studied, almost. In all of our research and in all of the other studies that I have read, I have not seen a good argument of why it should not benefit all sides and all sectors.

I will ask that our written testimony be made part of the record, and I will just summarize, because a lot of what I was going to say has already been said and I will not belabor your time.

Competitiveness in the world market depends on having competitive costs of labor. There has been a lot of discussion earlier today on why and what other reasons companies would have to go to Mexico, and I would like to be honest about this and say that labor is, by all means, the most significant reasons. The second most significant factor is the location of the market, the logistics of getting material, labor, parts to and from the place, and finished products to the world markets from there makes Mexico an ideal venue for United States producers.

Another good point in its favor is the geopolitical location of the two countries. Mexico, over time, has flirted with socialism and communism, and the best way to make sure that we will have a reliable neighbor is to see that the industry prospers and the people earn a living. By United States companies locating plants in Mexico, we will help them increase their wages and, in turn, they will be able to buy more United States exports. So, it is in our enlightened self-interest to help Mexico become productive.

Comparing Mexico to the Canadian agreement, which seems to be working, there is immeasurable greater benefit in the Mexico treaty. In Canada, we had 80 percent exemption before the agreement was made, and about 10 percent is now exempt and it will eventually come in, so basically there was a gain of about 10 percent. The United States and the Canadian economies are almost identical, and so there was very little competitive advantage to either country.

With Mexico, we have great competitive advantage in technology, in marketing techniques, design and high-quality labor. Mexico's advantage is in low-cost labor.

It has been implied, at least, that it is amoral to hire people for $5 a day. Those people a few years ago were making $3.50 a day, their economy is improving and, as it improves, it will improve our ability to do business with them.

There is no U.S. company that could all of a sudden go in there and pay the typical U.S. wage. It would absolutely upset the local economy. So, when a U.S. company goes in, they generally go in and pay 10 percent more than what were the going wages. In other words, they might be paying $5.50 a day, instead of $5 a day, and people work as free-choice individuals, and if they had a better opportunity, they would not come and work for the new company.

Just like the U.S. economy over time has always depended on investment, in the beginning British investment and later on investment from many other counties, the Dutch, for example, were always big investors here long before the Japanese came, and so have United States companies depended on investment overseas. Likewise United States investment in Mexico helps both countries.

If a United States plant goes to Mexico and they bring back the earnings, that helps our current account balance. Let us consider that anything that is sold in Mexico helps United States profitability and anything that goes from Mexico to another country around the world produces some earnings, and that part which comes back to the United States, the U.S. consumer only buys foreign products that are either better or cheaper than what they can get locally, and if that is not the case, then they would buy the U.S. product. Since we are all consumers, being able to buy products competitively priced helps the U.S. inflation stay down and, all in all, it is a win-win situation.

In most typical products, you have marketing, you have product design, you have engineering, you have packaging, parts production, assembly, transportation, warehousing, distribution, marketing and PR, sales, after-sales service, parts warehousing and distribution, and then you have a whole slew of dealer services that go on. I listed 16 steps, of which 2 may go to Mexico. That would be parts production and possibly assembly.

With each job that goes to Mexico—and that may not be a displaced job, it may be a new job, the company may find out that, by relocating down there, they can all of a sudden be competitive with the Taiwanese or Hong Kong product—that with each job that is created down there, there will be between 1.5 and 2 new jobs created in the United States on some of those 16 items that I listed.

Therefore, the knee-jerk reaction of the AFL–CIO to so-called exporting of jobs is not valid. And while we all want to recognize the "rights of labor," the rights of the producers should also be considered. He works. He stands last in line when it comes time to get paid, and if he feels that it is necessary to go to Mexico to be competitive or to increase his production, he should have a right to do that.

I think the rest of my testimony has been preempted by the previous speakers. Let me just mention one more thing: If we have this combined market, if we do create this 360 million combined North American market, it puts us in a better bargaining position to negotiate with the European Community, which claims to now have 330 million people.

The esteemed Congressman who introduced the idea of creating a North Atlantic common market is on the right track, and at some point in time I see that coming within the next 5 or 10 years, so that having this block of 360 million consumers on this side will

help us in negotiating with the Pacific rim bloc when that solidifies and with the European Community for an entire free trade world. All in all, from a geoeconomic, and maybe more important, from a geopolitical point of view, this is a win-win situation that should be given fast a track.

I thank you very much, Mr. Chairman.

[The prepared statement follows:]

STATEMENT OF
DR. PETER T. NELSEN, PRESIDENT
and
WILLIAM B. KENT, DIRECTOR OF RESEARCH
INTERNATIONAL TRADE COUNCIL

BEFORE THE
SUBCOMMITTEE ON TRADE
OF THE HOUSE COMMITTEE ON WAYS AND MEANS
ON
U.S.-MEXICO FREE TRADE AGREEMENT

FEBRUARY 28, 1991

INTRODUCTION

The recent decades have proven that for any country's economy to flourish, it is mandatory to play an effective role in the world economy. For the United States, there emerges in the decade of the nineties a pressing need to position itself accordingly. As competition for international trade has increased dramatically, this country's position as the undisputed leader in the world economy has simply not kept pace with the growth of emerging industrialized and developing countries. In essence, the competition for international business has become fierce. The proposed U.S.-Mexico Free Trade Agreement will provide a macro-economic benefit to the United States that it urgently needs in order to re-invigorate its economy, to provide long term growth for U.S. industry and labor over the next century and to improve its geo-political relationship throughout the Americas: North, Central, and South.

In the agreement exists an ideal partnership for both the United States and Mexico. The macro-economic benefit to both is evident: the U.S. has a comparative advantage with technology, marketing, and management, Mexico has a comparative advantage in production labor. Thus, both countries benefit by increased output, a better competitive position in the global markets. Since more than half of the labor input in a typical production cycle is in design, engineering, distribution, marketing, and after-sales service, the increase in combined output will not only provide increased labor output for Mexico, but also a definite increase in labor demand for the U.S.

The second major benefit, of the proposed FTA, to the United States is the geo-political consequences. A strong, prosperous Mexican economy is very much in the interest of the United States. There is little debate that Mexico, as the United States, will gain substantially from an FTA. Whatever progress and growth that the Mexican economy experiences must be looked upon favorably. A healthy, expanding economy, in effect, ensures political stability in Mexico, thus helping to ensure political stability in the region. Other countries in Central America and in the hemisphere will, as a result, witness the advantages of free, democratic societies.

Mexico has stated that the primary goal of a free trade agreement with the United States is to eliminate tariff and non-tariff barriers between the two countries. If the proposed FTA does in fact remain true to this objective, the "fast track" procedures will then be in the economic interest of the United States. The creation of a level playing field without delay will help the U.S. in its immediate need to rectify its massive trade deficit and perhaps help to salvage the country from its current recession.

In helping U.S. companies to establish in Mexico, the FTA will provide the U.S. with preferential access to the domestic market of Mexico, which is approximately one-third the size of our own in population and about eight percent of ours in consumption. The resulting positive effect on the U.S. balance of payments and current account is evident. In addition, the U.S. consumer has much to benefit from the "fast track" procedure. It will quite simply lower the cost of products and subsequently limit inflation in our domestic economy.

Any delay in implementation of the FTA will have two adverse effects. One, the many single issue lobbies, opposing the FTA, will have more time to organize and work to prevent an actual, economic step forward. Two, the respective economies of the United States and Mexico will be restricted, for however long the delay lasts, from all of the benefits that accompany increased international trade.

The fundamental objective of the FTA with Mexico is to allow each country to fully benefit from the comparative advantage that it possesses. The United States offers expertise in technology, design competence, and world-wide marketing; Mexico offers low cost labor. The U.S. and Mexican economies complement eachother, providing substantial geo-economic benefits to both. Thus, the knee-jerk reaction of the U.S. labor unions to oppose any FTA is unjustified and contrary to the best interest of U.S. labor and the U.S. consumer. The U.S. Secretary of Commerce, Robert A. Mosbacher, has stated that the FTA would create a "win-win" situation, because it would stimulate increased business on both sides of the border and generate greater economic prosperity for both people. In effect, both the United States and Mexico, as a result of an FTA, will enable themselves to compete more effectively in the world market.

The scope of the FTA is to be as wide as possible, eliminating all tariff and non-tariff barriers that the respective governments may allow by law. Any exclusion from the agreement will only serve to benefit minority or single industry groups to the detriment of the individual countries as a whole.

Ideally, the content is to be as open as the trade that exists between the fifty united states of this country. It shall be as broad as the Constitution will allow.

With respect to Canada's role in the free trade agreement, there are two important points to consider. One, Mexico's chief FTA negotiator sees the inclusion of Canada as a prerequisite to any free trade negotiations with the United States. Two, as a unit, the United States, Mexico and Canada, represent approximately $5.5 trillion in purchasing power; collectively, they would comprise the largest market in the world. Each country, as a member of this market, will substantially bolster its position as a player in the world economy.

Every effort should be made to further open up parts of the U.S.-Canada agreement that were excluded in 1988, provided that it does not cause extended delays in the trilateral accord. If Canada refuses to entertain an all-encompassing agreement, the United States then must continue to work with all the possibilities for expansion of free trade with Mexico.

It is necessary to recognize the disparities between the three economies and the governments that control them. It is then in the interest of the U.S. to pursue the most inclusive agreements it can achieve despite the disparities. There must be a limit to the effect that a lack of agreement with one country should impede progress with the other.

The most certain and beneficial impact of a U.S.-Mexico FTA is that it will significantly enhance the U.S.' longterm economic position in the world economy.

The U.S.' competition is the countries in the world with low cost labor. To effectively compete in existing markets and to aggressively expand into emerging markets throughout the world, the United States needs Mexico both as a partner and as a supplier of cheap labor. Japan and other industrialized countries are investing in countries with low cost labor; to remain competitive, the United States must do the same.

It is important to note that in doing so, the U.S. economy will actually improve its domestic employment situation. In the U.S., the cheap labor workers will be phased out over time, retrained for better paying positions, and experience an actual increased standard of living in the long term. In addition, as production in Mexico rises via the low paying jobs, the U.S. creates opportunities in its own higher paying professions, such as engineering, design, implementation of new technology in manufacturing and product development. The net effect is that the U.S. gains global business, accesses new foreign markets, makes progress in correcting its trade imbalance, and also improves its domestic workforce and increases U.S. productivity.

The FTA will serve to increase U.S. productivity, an issue that is worth considering. Productivity can be measured against output in past years, but a more significant gauge is comparative productivity in the world market. Total labor comprises 80% - 85% of most product costs in design, engineering, manufacturing, distribution, marketing, after-sales-service, etc... If the cost of labor can be reduced, then productivity is increased by the same factor; competitiveness is subsequently increased and the consumer in the U.S. and its customers overseas benefit.

According to experts in an International Trade Commission report, the major advantages for the United States from an FTA with Mexico are as follows:

1.) enhance the competitive position of the U.S. among emerging trading blocs

2.) create jobs in the U.S.

3.) give certainty and predictability to U.S. investors by making Mexican economic liberalization permanent

4.) help develop the U.S. border area

5.) decrease the flow of illegal immigrants into the U.S

Any special interest group that demands to be excluded from the FTA, such as industries or agriculture, must be subjected to an independent cost-benefit analysis. Only if the results prove a negligible effect on the economy and the consumer , should it be honored. If justified, it should be in the form of a three to five year phase-in period to allow relocation, retraining, or shrinkage by attrition.

By comparison to the U.S.-Canada agreement in 1988, the U.S.-Mexico FTA offers far greater potential for the following reasons:

1.) there was no comparative advantage between the U.S. and Canada

2.) there is a major comparative advantage between the U.S. and Mexico

3.) Canada's population is only one-tenth of the U.S. population

4.) Mexico's population is one-third of the U.S. population

5.) Over sixty percent of the Mexican population is younger than thirty-five and hungry for American products; they represent a drastically expanding consumer market

There will be a notable impact on several major U.S. industries. Information compiled by the United States International Trade Commission follows:

AGRICULTURE: An FTA is expected to affect significantly the level of U.S. trade with Mexico in agriculture products. Mexico is the second-largest foreign supplier to the U.S. market for these products after Canada, and the third-largest U.S. export market after Japan and the Soviet Union. About 40% of the of the agricultural imports from Mexico enter free of duty...The elimination of tariffs and NTBs under an FTA would generate a significant increase in U.S. imports from Mexico and a moderate increase in U.S. exports to Mexico.

LIVESTOCK: Removal of Mexico's relatively high tariffs on meats under an FTA would likely result in a moderate increase in U.S. exports of meats to Mexico. Similarly, the removal of U.S. duties and Mexican export fees on feeder cattle would likely result in a moderate increase in U.S. imports of such cattle.

AUTOMOTIVE PRODUCTS: The most significant factors affecting U.S. trade with Mexico in automotive products are Mexican foreign investment restrictions, export performance requirements, local content rules, and import restrictions... An FTA would likely encourage the Big Three automakers to restructure their Mexican operations to increase their specialization, thereby achieving economies of scale and, in turn, enhancing their competitive position vis-a-vis Asian and European producers.

TEXTILES AND APPAREL: An FTA would also result in a significant short-term increase in U.S. exports of textiles and apparels to Mexico, which rose by 25% annually during 1985-89. The projected export growth would likely be concentrated in components for use as inputs in maquiladora operations producing garments and other textile products for export to the United States. In the long term, the growth of U.S. exports to Mexico would likely moderate as the Mexican textile industry becomes more developed.

SERVICES: U.S. trade with Mexico has traditionally been limited primarily because of Mexican limitations on foreign ownership and other restrictive NTBs. An FTA, coupled with recent Mexican efforts aimed at privatizing and liberalizing several services sectors, would likely lead to an increase in investment and export opportunities in Mexico for U.S. firms.

Beyond what USITC projects, it is important to recognize the tremendous demand for infrastructure within Mexico, both in design and supplies. For the U.S. to establish its presence, early in the developmental stages of this process, would create a substantial market for U.S. services in Mexico for many years to come.

CHEMICALS: An FTA that removes Mexican restrictions on foreign investment and protects intellectual property rights would likely spur U.S. investment in Mexico for the manufacture of high-technology products and generate moderate growth in U.S. exports.

ELECTRONIC EQUIPMENT: U.S. exports to Mexico would likely grow moderately in the short run and significantly in the long run.

ALCOHOLIC BEVERAGES: An FTA would likely spur U.S. exports of alcoholic beverages to Mexico. These exports have grown rapidly since 1985, in response to Mexico's reduction or elimination of many of its duties and NTBs. The trend is expected to continue under an FTA as Mexican duties are further reduced and distribution arrangements in Mexico improve.

When evaluating the potential impact of an FTA on specific U.S. industries, there is an additional factor that deserves attention; it is an economic term known as "the multiply effect". In basic terms, increased activity in one or several areas/industries of an economy will cause an increased activity in other areas/industries of the economy. As new money enters an economy, it circulates and causes the multiply effect. As a direct result of an FTA, we estimate the multiply effect in the case of Mexico to be 4:1. This ratio implies that for every dollar that enters an economy, it will turn over four more dollars. Thus in the case of U.S.-Mexico trade, for every dollar that Mexico spends on imports, it will increase its productivity, experience an increase in income, and potentially spend more on U.S. imports.

SUMMARY

There is overwhelming evidence to support the case for the implementation of a free trade agreement between the United States and Mexico. The entire U.S. economy will benefit from such an agreement, particularly in the long term as Mexico develops its economy and becomes a more formidable market and trading partner. It essential that the United States takes advantage of this opportunity to enhance its position in the global market. Any adverse effect to any specific U.S. industry must be seen as a chance to modernize and thus compete more effectively in the world economy. An FTA with Mexico is by all standards an economic step forward for the United States.

Chairman GIBBONS. Thank you, sir.
Mr. Joseph.

STATEMENT OF JOEL D. JOSEPH, CHAIRMAN, MADE IN THE USA FOUNDATION

Mr. JOSEPH. Thank you, Mr. Chairman. I have listened to all the witnesses today, and we are the only witnesses today to oppose the free trade initiative with Mexico. I have listened carefully to all the witnesses, and I have not found any clear benefit to Americans or American consumers. I have only found detriment, and I will go into detail.

In theory, and I believe the witnesses all are testifying in theory and, I hazard to say, are very superficial about it. In theory, free trade sounds like a good idea. It represents freedom and international commerce. The problem with free trade is that it is never truly free. Governments have been tinkering with the marketplace for decades.

Economists base their theories of free trade on many assumptions; most of these assumptions are totally false. I am chairman of the Made in the USA Foundation, a nonprofit organization dedicated toward promoting American products in the United States and overseas. We are not protectionists.

We strive to improve the disgraceful balance of trade deficit that has been running now for 10 years. It is a persistent—more than $100 billion a year. It is unprecedented, and it is undermining the strength of the United States. I earned two degrees in economics, one in the United States and one in Europe, and a law degree here at Georgetown University.

One of the assumptions of free trade is that people can move freely across the border and that wages will eventually become equal. In other words, you have heard testimony that wages in Mexico are 60 cents an hour and in the United States you know they are 15 times as high.

If there is going to be truly free trade, those wages will become equal eventually, maybe 20 years from now; maybe 50 years from now. But you must think about the long term effects of this if we want to have a real economic merger with Mexico.

One of the major problems, and this is going to be a problem for 20 years, is that free trade only works properly when the underlying laws of the nation, such as those concerning environmental protection, occupational safety and health and minimum wages are comparable.

You know that the laws in Mexico, although on its face, it says they protect the environment, they do not enforce the laws like we do here. I have been to Mexico four or five times. I know what law enforcement is like down there. It is totally different than the United States.

You heard the testimony before from Kim Johnson. She left out one illustrious American who comes from Canada, Bob Hope. He is one of the leading members of our advisory board in the Made in the USA Foundation. You have heard testimony that unions oppose the agreement. Well, I would like to say that the Made in the USA Foundation is made up of more than trade unions. We

have hundreds of corporate members around the country. Now, they are mostly small- and medium-sized businesses and individuals throughout the United States in every district, in every Congressman's district around the country, that oppose the free trade agreement.

One of the biggest myths of free trade is that consumers are going to benefit; given free trade, prices will come down and you are going to get incredible bargains in the marketplace, and I will give you some examples to show it ain't true—it is not true.

For example, the Ford Motor Co. manufactures two nearly identical cars, the Ford Escort, made up in Michigan, and the Mercury Tracer, made down in Mexico in the 12-mile area that is called the maquiladora region. The engines on both cars are identical. The frame and basic design are exactly the same. The only differences are minor variations in sheet metal and interior trim.

Which car costs less? The Ford Escort made in Michigan. There is no benefit to consumers there; the benefit is going to the Ford Motor Corp. The Jerrold Electronics Co. in Kansas City, formerly in Kansas City, I must say, had 190 workers making $9 an hour repairing cable TV converters. They shifted their work to Matamoros, Mexico, where the work is now done for $1 an hour. The savings have not been passed on to the consumers.

So you hear a lot of people. You will hear the NAM, and they testified before saying all these great benefits to consumers. They are lying to you. There is no benefit to consumers. There might be a benefit to the large manufacturers, but there is not to consumers.

Concerning the environment, if we enter into a free trade with Mexico, the jobs will go south of the border and the pollution will flow north from Mexico, like it is doing right now. Mexican factories are already spewing pollutants into southern California waters and air, and Texas air and water. A free trade agreement will turn that polluting run-off into a flow of industrial strength sewage.

Because Mexican environmental enforcement is lax, American, Japanese and European companies are flocking to Mexico. Production is cheaper to the manufacturer if you do not have pollution control. The external costs, the externalities of production, the pollution, are passed onto the Mexicans and the Americans who are forced to breathe dirty air and have their water supplies contaminated.

Here is an example that might bring it a little home. You passed a law here in Congress that bans DDT. We cannot use DDT in the United States except in rare situations. In Mexico, they allow DDT to be sprayed on tomatoes. The tomatoes you buy at Safeway that come from Mexico have DDT on them. We should be closing America's doors to tainted products containing pesticides that we have banned, not opening the door further, and that is what we are going to be doing.

The new slavery; using Mexican labor at 60 cents an hour to assemble products is really slavery. Now you might think they are getting a nickel more than they got last year and that they are voluntarily agreeing to work. But so did the workers back in Chicago in the 1880's; they voluntarily agreed to get 3 cents an hour because they did not have a choice.

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Many Mexican plants use child labor that we banned a long time ago, have unsafe and unsanitary working conditions that we banned a long time ago that we will be endorsing with a free trade initiative. These are subsistence wages. Factories are supplying workers with lunches to make their workers strong enough to work. They cannot afford to buy their own food; that is why they are providing them with free lunches.

The low-paid Mexican workers, they are not going to buy American products. They cannot afford them. As you heard people asking before, where is the benefit from free trade going to come? Free trade will be a one-way street; Mexican factories producing the goods for the United States while United States factories close down.

As I mentioned before, we represent many small business. You must realize that not only labor unions are opposed to this agreement. It is predominantly the large multinational companies like Ford Motor Co. that I picked on before and the other ones that will benefit. We do have an auto manufacturer who is a member of the foundation, so I am certainly not against all auto manufacturers or anything like that.

The small businesses that the foundation represent overwhelmingly oppose the free trade initiative. They want to manufacture goods, not merely become hollow companies distributing products that are made overseas. If American companies become hollow shells, we will lose control of manufacturing. And when we lose control of manufacturing, we lose the opportunity to improve the manufacturing process.

Quality of manufactured goods will decline. Manufacturing quality in Mexico is far below that of the United States. I will give you one example. Lionel Trains manufactured trains in the United States from 1900 to 1969. They were acquired by General Mills and in an effort to save money and use low-cost labor—and that is why people go to Mexico, because they can pay their workers much less—they moved production of Lionel trains from Mount Clemens, MI, to Tijuana, Mexico, in 1970.

The new plant made inferior trains, missed delivery dates and irritated retailers and consumers. A railroad buff and investor from Detroit, Richard Kughn, bought the company, immediately moved it back to Michigan and it has been an incredible success story. Quality is back up. Their Lionel trains are the same quality Lionel trains that were made long ago. Sales have climbed 150 percent since he moved there to $50 million a year.

There is a lot of lessons to be learned from Lionel. It sounds like you are going to get a great deal, having workers produce trains or toys or cars down in Mexico and pay them $1 an hour, but we are going to suffer in the long run. We are going to have unemployment. We are going to have inferior goods, and American manufacturing will decline even more.

I am not going to read or even summarize the rest of my testimony. I think you get the point and I would be happy to answer any questions you have.

[The prepared statement follows:]

TESTIMONY

of Joel D. Joseph

Chairman

Made in the USA Foundation

Before the Subcommittee on Trade

House Committee on Ways and Means

February 28, 1991

In theory free trade sounds like a good idea: it represents both freedom and international commerce. The problem with free trade is that it is never truly free: governments have been tinkering with the marketplace for decades. Economists base their theories of free trade on many assumptions: Most of these assumptions are totally false.

My name is Joel Joseph. I am chairman of the Made in the USA Foundation, a non-profit organization dedicated to promoting American products in the United States and overseas and improving the U.S. balance of trade deficit. I earned two degrees in economics, one from Northwestern University, the other from Edinburgh University in Great Britain, and a law degree from Georgetown University.

One of the false assumptions of free trade is that people can move freely across national boundaries. Another problem with free trade is that it works properly only when the underlying laws of a nation, those concerning environmental protection and occupational safety and health, for example, are comparable. The Made in the USA Foundation supported the Canada-U.S. Free Trade Agreement because Canada and the United States have very similar laws on pollution, safety and health.

The Made in the USA Foundation opposes the President's free trade with Mexico proposal. The Foundation is the largest membership organization concerned with the U.S. trade deficit, with corporate, individual and union members in every state.

The Myth that Consumers Will Benefit

The major argument in favor of free trade with Mexico is that consumers will benefit. Not only will consumers not benefit, they will suffer a loss of income while prices remain the same or increase. For example, Ford Motor Company manufactures two nearly identical cars, the Ford Escort in Michigan and the Mercury Tracer in Mexico. The engines to both cars are identical, the frame and basic design are the same. The only differences are minor variations in sheet metal and interior. The bottom line however, is that the basic American-built car sells for $1,000 less. Where is the vaunted consumer benefit?

Jerrold Electronics closed in Kansas City plant, throwing 190 workers out of $9 an hour jobs repairing cable TV converters. Workers in Matamoros, Mexico are now doing the same work for $1 an hour. The savings have not and will not be passed on to consumers.

The Environment

If the United States enters into a free trade agreement with Mexico jobs with flow south and pollution north. Unlike our neighbor to the north, Mexico has virtually no enforcement or compliance with environmental laws. Even without a free trade agreement Mexican factories are already spewing dangerous pollutants into Southern California waters. A free trade agreement will turn that polluting runoff into a flow of industrial-strength sewage.

Because Mexican environmental laws are lax, American, Japanese and European companies are flocking there: production is cheaper if you don't have to control pollution. The external costs of production, pollution, are passed on to Mexicans and Americans who are forced to breathe dirty air and have their water supplies contaminated.

Mexico allows its farmers to use the pesticide DDT which is banned in the United States. American consumers are already buying Mexican tomatoes tainted with DDT. We should be closing America's doors to tainted products, not opening the door further.

The New Slavery

Using Mexican labor at sixty cents per hour to assemble products is the new slavery. Many Mexican plants use child labor, have unsafe and unsanitary working conditions that we will be endorsing with a free trade agreement. These are subsistence wages--factories are supplying workers with lunches to make sure their workers are strong enough to work. The working conditions and the pay for these workers is no better than that of 19th century sweatshop workers before enactment of fair labor laws. We cannot close our eyes to the economic slavery and minimum-wage sweatshops that we are fostering.

These low-paid Mexican workers will not buy American products--they won't be able to afford them. Free trade will be a one-way street for products, with Mexican factories producing goods for the United States while U.S. factories close down.

Small Businesses Oppose Free Trade with Mexico

Not only labor unions oppose this agreement. Small and medium sized businesses oppose the agreement as well because they are concerned with an eroding labor force, tax base and domestic manufacturing capacity. It is predominantly the large, so-called multinational businesses that support open borders with Mexico. The small businesses that the Foundation represent overwhelmingly oppose the free trade initiative. They want to manufacture goods, not merely become hollow companies distributing foreign products. If American companies become hollow, shells of their former selves, we will lose control of manufacturing. If we lose control of manufacturing we lose the opportunity to make improvements in the manufacturing process.

The United States used to lead the world in the production of machine tools, the tools that build other machines. We are now sixth in the world, behind Japan, Germany, Italy, Switzerland and the Soviet Union. We will fall further behind in manufacturing capability if the free trade proposal with Mexico becomes reality because manufacturing jobs will be shifted out of the country.

The Quality of Manufactured Products Will Decline

Manufacturing quality in Mexico is far below that of the United States. A case in point of that is the saga of Lionel Trains.

Lionel Trains were made in the United States from 1900 to 1969. Lionel was acquired by General Mills and in an effort to save money, production was shifted from Mt. Clemens, Michigan to Tijuana, Mexico in 1970. The new plant made inferior trains, missed delivery dates and irritated both retailers and model railroad hobbyists. Richard Kughn, a Detroit investor and model railroad buff led a group that bought out Lionel. The first move that this group of investors made was to move manufacturing back to Mt. Clemens, Michigan. Lionel rehired many of the plants' former workers, reemphasizing product quality, and spread the word that Lionel was back on track. Since Kughn's group took over Lionel, sales have climbed 150% to $50 million per year. Lionel makes about one million train engines,

ca: es a year.

The lesson to be learned from Lionel is that the alleged savings of a shift in production to Mexico is that quality was not considered. American workers are paid good wages because American workers are skilled workers and demand fair compensation.

Conclusion

Free trade only works when the nations involved have comparable legal frameworks. Legislative tinkering with the unfettered marketplace, such as minimum wage laws, occupational safety requirements and pollution control regulations will be wiped out by "free trade" with a third world country that has no such standards.

An economic merger with Mexico would transfer all new factories South of the border. Mexican wages at new factories in northern Mexico, within sight of the U.S. border, pay $25 a week to an employee for 48 hours of work. This is one-third of the average South Korean wage and one-quarter of that earned by workers in Hong Kong. What will happen to factory workers in the U.S. earning $25 an hour? With our $3.85 minimum wage law we will experience rampant unemployment, massive plant closings and lower wages at companies that manage to stay in business.

Now is the time to stop the free trade with Mexico initiative. It may sound good in theory, but in practice it means American jobs going south of the border and pollution from Mexico contaminating North American water and air.

I thank you for this opportunity to present the views of the Made in the USA Foundation and the millions of members that we represent.

Chairman GIBBONS. Thank you, Mr. Joseph.

Mr. Schulze.

Mr. SCHULZE. Very briefly, Mr. Chairman, for Mr. Riley. Mr. Riley, at a time when think-tanks and international economists have in general tried to discourage the negotiation of bilateral and regional free trade agreements for fear of offending GATT and the multinational group, you and your organization have supported the simultaneous pursuit of bilateral and regional and multilateral trade agreements. First of all, I laud you for taking such a position. I strongly support and have continually supported that approach.

And I guess what I want to do is give you a forum to tell me why you think that and whether you believe that the pursuit of bilaterals and regionals and multinationals at the same time can build blocs upon which we ultimately get free trade instead of these huge blocs competing with each other. So I am throwing you a softball.

Mr. RILEY. Anything the United States can do to lower its trade barriers, particularly when we can encourage our trading partners to lower their barriers at the same time, is good for the American economy and is good for consumers. So long as the bilateral negotiations do not conflict with the principles and the guidelines outlined in GATT, we see them as a complement to the GATT process.

I think the United States-Canada agreement is an example of how what we learn in the bilateral process, we can take to the multilateral negotiating table as well and use it as a tool to build on in the multilateral process. I also think that if you view the North American free trade agreement as a way to encourage our trading partners in GATT to sit down at the table with us and maybe make concessions in the areas where there are still some roadblocks to a GATT agreement then bilateral free trade agreements can be a way to move toward multilateral free trade.

Mr. SCHULZE. I could not agree more, and I will take it one step further. I would hope—I had hoped—that the Canadian agreement would be a shining example that we could hold up for all the world to see and say this is what two good neighbors and friends and trading partners can accomplish, the kind of agreement they should have. I guess I expected too much and I was somewhat disappointed. I am glad that we did it, but I had hoped it would be that shining example. I do not think it ended up that way.

I would hope, and I guess we are going to have to give a little bit more in the Mexican negotiations, but I would hope that we could end up at the end of the phaseout period or phasein period with just exactly that, something that we can show to the rest of the world as a prime example.

And in fact, I would hope the day would come when we would say to other partners in the world, "This is what free trade is all about. If you care to join, if you will agree to the stipulations these others have, come in. We welcome all of you." And that is what I view as the so-called new world trading order.

It is not written in stone that GATT will always be the preeminent international trade policeman. And if they do not do their job, then I would hope that a new world trading order would evolve out of something of higher standards and a higher level than we have been able to achieve trying to bring things down to the lowest common denominator throughout the world.

So I thank you for your position. I urge you to stick fast for it, and work like the devil to achieve it.

Mr. RILEY. Thank you.

Mr. SCHULZE. Mr. Duggan, I have just one question for you. A lot of concerns have been expressed to this subcommittee regarding the problems posed to United States exporters by the so-called "parastatal" entities in Mexico and their stringent "Buy National," sometimes 100 percent "Buy National" laws and rules and regulations.

Are your members who, in my opinion, are very important, the small business exporters, are they experiencing problems in this area, and is this an area where you think our negotiators should really stand and fight and make a valiant effort to pierce that armor that is down there in Mexico?

Mr. DUGGAN. Well, first of all, there has not been that kind of expression coming back. As a matter of fact, my chairman, on the day I told him that I was going to be asking to appear before you, said, "Oh, great. I just got a $1 million contract from the Mexican Government." But he fully approves of the stance the association is taking.

But there are no specific examples that I can relate to you regarding the, you know, the point you just made. But I think this is the reason why; we really have not had an opportunity to explore this. It is just like, say, the U.S. Chamber coming in here with 175,000 members. I would like to ask the chamber whether or not they actually surveyed their 175,000 members and got an informed reading from them as to how they feel or is this a board decision that is made by the power structure within that organization?

If I could, I would like to ask a question that I was hoping Mr. McGrath was going to ask this morning when you had some people here who were making the point from the chamber on the example of Arvin Corp. exporting $15 million a year or 2 years ago exporting $15 million of product from the United States into Mexico and only bringing $1 million out.

You know, where did that $15 million go? Is Arvin an original equipment manufacturer that is supplying those Ford cars that cannot be sold in Mexico and are coming back in here; that maybe something—maybe Arvin is not exporting all of that product back in the United States, but there is a good chance that somebody else is? And I think that without really examining that, you know, we have to look a little bit below the surface on this thing. It sounds great; 15 going in and one coming out, you know. We are really making out like a bandit in that situation.

But I think that it is misleading. I think the product is going somewhere. There is a manufacturer up in Illinois that the U.S. Department of Commerce is working with as a small business. They have 40 employees in Illinois. But they are a maquiladora operation with over 700 employees, and they manufacture a product which is distributed by Black & Decker.

Mr. SCHULZE. Do you believe or do you have any information to think that Arvin products might be coming back in through a second or third utilizer?

Mr. DUGGAN. Well, the question would be whether or not the products that they manufacture down there are going into original

equipment, and if it is, where is that original equipment ending up?

Mr. SCHULZE. But I am asking do you have any information——

Mr. DUGGAN. I do not, but I was hoping that the people who were making that point that this is the example, and last, a couple of weeks ago at the Senate Finance Committee, James Baker from Arvin was making the same point. But the question was never put to him as to where those products ultimately ended up.

Mr. SCHULZE. But you do not know?

Mr. DUGGAN. I do not know, no. I just, you know, have got a lot of questions like a lot of other people.

Mr. SCHULZE. I guess, Mr. Duggan then, the only way I can ask you if you do not have the information is what are your feelings on the 100 percent "Buy Mexico" provisions in the "parastatal" entities in Mexico?

Mr. DUGGAN. Well, as I said in my statement, I think that a lot of the problems that we have with Mexico regarding trade are Mexican in origin, and that in lieu of a free trade agreement, that if they were to just make the internal changes and reduce the barriers that they have put up, we would be a lot further along on trade with them then we are now, although the changes that have come about over the last couple of years are very welcome.

Mr. SCHULZE. I thank you.

Thank you, Mr. Chairman.

Chairman GIBBONS. Thank you.

I want to thank all the panel members for coming today and for being so patient and waiting so long.

Chairman GIBBONS. We will next take up the testimony of Mr. Joseph McNamara and Christine White.

Mr. McNamara.

STATEMENT OF JOSEPH McNAMARA, MEMBER, CONDOMINOS COSTA CARIBENA, A.C.

Mr. MCNAMARA. Yes, sir. Mr. Chairman, Congressmen, panel members, my name is Joseph McNamara. Until 7:30 this morning, I was a resident of the State of New Jersey. And I hope by about midnight tomorrow night, I will be a resident of the great State of Florida.

Chairman GIBBONS. Good.

Mr. MCNAMARA. Well, it is good and it is not good. Until March 1990, I was employed as a consumer electronics sales manager for the Ricoh Corp., a large Japanese manufacturer of office equipment, electronics, whatever. But due to the elimination of the division, of which I was one of the 200 let go—unfortunately, we are all Americans; no Japanese, of course, were let go—my job was eliminated.

Because of my age—I am 61—I am too young to retire and too old to be hired; so that is why I am going to Florida. The economic problems in the Northeast, as you are probably well aware, well, they are difficult. But when my financial position was more stable, I invested in a dream. The dream was called Dunas. It was a five-star condo hotel that was under construction and about 40 percent complete in Cancun, Mexico.

The dream, unfortunately, proved to be a mirage. But I found since that my story is not unusual. Many, many people have fallen in love with the climate and the wonderful people of Mexico. Some are now enjoying all that Mexico has to offer, my oldest brother's daughter being one who is very successful there, as well as other people that I have known.

But there are many others such as myself who have found a nightmare. I am a member of a group that was formed specifically to try to protect those individuals who invested in Mexico in the Dunas condominium hotel. Our group, called Condominos Costa Caribena, has 266 members which represents approximately 500 individuals from nine different countries. Three hundred of these people are U.S. citizens. Collectively, we have all invested approximately $15 million into this condominium.

Our group represents the majority of those investors. Even more shocking, we have invested an additional $400,000 trying to save our investment with absolutely no success, none whatsoever. Let me explain. Dunas was created by a Spanish developer who went bankrupt before the construction of Dunas was finished. Because the developer failed to pay the workers, unions staged strikes against the property and rightfully so.

Dunas was then taken over by the unions. The Government of Mexico, through its tourist arm, FONATUR, owns the property. We have been at a stalemate for the past 3 years as to how to recoup our losses. To complete the development of Dunas will require a significant investment by a real estate developer. It is now an unfinished pink elephant, uninhabitable, rotting away on one of the most beautiful beaches in the world, severely damaged by hurricane Gilberto and deteriorating further every day as we watch our investment go out with the tide.

For the past 3 years, our group has worked to either have the construction of Dunas completed by another developer or to sell our individual interests. A tremendous cost to the individual members of the group, we have worked within the Mexican legal system, hiring Mexican attorneys, traveling back and forth and holding conventions in Cancun to meet with the Mexican Government officials. Our members have volunteered countless hours, but we have been completely unsuccessful in our efforts.

It has been a struggle, a struggle that seems to have no end. Our members have suffered; four have had heart attacks and died, one while trying to carry the tile up to his ninth floor condo and place it himself because the union would not do it.

Members such as I have suffered serious financial reverses. We know that our claims are legitimate, yet we have been unable to achieve a fair resolution to our problems. I do not have a retirement pension from a company as an outside salesman. Everything I have had to put away, I have had to put away on my own. And I have a nest egg, but $33,000 of it went to someone somewhere in Mexico.

I know one man who has almost $600,000 invested and does not have a dime to show for it. But I am not here today to oppose a free trade agreement between Mexico and the United States, per se. What I ask you to do is please do not fast track it through. We are the investors who do not have an international law firm on re-

tainer. We are just working people trying to put something away, a little nest egg, a place to visit; make a little investment money on.

We would ask you to provide a board of appeals with a similar mechanism to protect those coming in the future, those innocents. My hope is that through the trade agreement, both countries will prosper. We do not have a board appealing for us in Mexico. We have nothing appealing for us in Mexico. We have the U.S. Congress and the President, and that is all we have.

Senator Bill Bradley has taken some interest in it. Paul Simon has taken some interest in it. We have 10 other Congressmen, Senators, interested in helping us solve our problem. But I hope that the rhetoric about the new climate for doing business in Mexico does not trap any more unwary taxpayers than it benefits.

Thank you for your indulgence.

[The prepared statement follows:]

Testimony of
Joseph McNamara, Member
"Condominos Costa Caribena"
February 28, 1991

Mr. Chairman, My name is Joseph McNamara. I am 61 years old. I live in Turnersville, N.J.

Until March, 1990, I was employed as a consumer electronics salesman. Due to the elimination of a division, my job was eliminated. Because of my age and the economic problems in New Jersey, I have been unable to find employment.

When my financial position was more stable, I invested in a dream. The dream was called Dunas, a condo-hotel that was under construction in Cancun, Mexico. The dream, unfortunately, proved to be a mirage. But I have since found that my story is not unusual. Many, many people have fallen in love with the climate and the people of Mexico. Some are now enjoying all that Mexico has to offer. Yet, there are many other, such as I, who have found a nightmare.

I am member of a group that was formed specifically to try to protect those individuals who invested in Mexico -- in the Dunas Condo-hotel. Our group, "Condominos Costa Caribena", has 266 members, which represents approximately 500 individuals from 9 countries. 300 of these people are U.S. citizens. Collectively, approximately $15 million was invested in the project. Our group represents the majority of those investors. Even more shocking, we have spent $400,000 and 3 years in our efforts to recover the Dunas dream, with no success.

Let me explain. Dunas was created by a Spanish developer who went bankrupt before the construction of Dunas was finished, because the developer failed to pay the workers, two union staged strikes against the property and Dunas has been taken over by the unions. The government of Mexico --FONATUR-- owns the property. We have been at a stalemate for the past three years as to how we are to recoup our losses. To complete the development of Dunas, will require a significant investment by a real estate developer. Dunas is now an unfinished pink elephant -- uninhabitable, severely damaged by hurricane Gilberto and deteriorating further each day.

For the past three years, our group has worked to either have the construction of Dunas completed by another developer or to sell our individual interests. At tremendous cost to the individual members of the group, we have worked within the Mexican legal system, hiring attorneys and travelling to Mexico to meet with Mexican government officials. Our members have volunteered countless hours but we have been unsuccessful in our struggle. Our members have suffered. Several have died, marriages have failed, members, such as I, have suffered serious financial reverses. We know that our claims are legitimate. Yet, we have been unable to achieve a fair resolution to our problems.

I am here today to support the free trade agreement between Mexico and the U.S., but I ask you to please, please include some strong provisions to protect the small investor, the individual who does not have an international law firm on retainer. Provide a board of appeals or some such mechanism to protect the innocent. My hope is that through the trade agreement both countries will prosper. But I hope the rhetoric about the new climate for doing business in Mexico does not trap more unwary taxpayers than it benefits!

CHRONOLOGY OF DUNAS PROJECT

Dunas------Condo-Hotel complex, marketed as a 5-star resort consisting of 30 villas, 3 towers (totalling 1062 units), located between the Cancun Palace and the Mariott on Kukulkan Ave. in Cancun.

Sr. Jose Miguel Aldavero---Spanish owner and developer of Dunas.

Aldavero Operadoras de Mexico, S.A. de C.V.-Hotel operating company.

Alpemex, S.A. de C.V.--Construction company building Dunas controlled by Jose M. Aldavero.

FONATUR----Division of the Department of Tourism that over-sees construction of resort areas in Mexico, including Cancun.

Condominos Costa Caribena, A.C.--An association formed by Dunas contract-vendees.

Nov.1982---Public Deed #2523 was granted by the City of Cancun to Alpemex.

Aug.1985---Alpemex signed a contract with FONATUR for the rights to lot 40A on Kukulkan Ave. second section of the tourist zone.

FONATUR approved complex called Dunas which was to consist of 493+ units.

Sept.1985--Sales of the 1062 units begins. Units were sold to good faith buyers from the U.S., South America, Canada, Europe, Japan, Hong Kong and Mexico. Units worth over 20 MILLION DOLLARS were sold.

Feb.1987---FONATUR notified Alpemex to stop construction. FONATUR accused Alpemex of exceeding density regulations, invading the adjacent federal zone and intending to defraud customers.

It took 14 weeks to settle the matter. Alpemex was fined 1.8 million dollars. A compromise was reached and Alpemex was allowed to sell 859 units. Of the three points Alpemex was accused of, the number of units was the only one pursued.

Jun.1987---Construction and sales at the Dunas complex resumed. The Villas were completed and the first tower was about 90% complete.

Mar.1988---Dunas Assoc. Ltd. was incorporated in the U.S. this group represented approximately 150 contract-vendees from all over the world. In Mexico a civil association was formed representing approximately 20 contract-vendees. The name of this group is Condominos Costa Caribena, A.C.

Apr.1988---Dunas officers met with officials in Mexico City. Sr. Aldavero leaves Mexico without paying his fine.

May 1988---Because FONATUR stated they would deal with only one organization, Dunas Associates, Ltd. and the Mexican association of investors merge into a single Mexican civil association, Condominos Costa Caribena, A.C. Investors organized Costa in an attempt to solve the problems of non-payment to the workers and to protect their investments in Dunas. The investors asked for help from the city of Cancun, the state of Quintana Roo, FONATUR, and Mexico City.

At this time CTM (the Mexican labor union) called a strike because of unpaid wages. Dunas was completely shut down and homeowners were evicted from their units.

Jun.1988---Members of Costa are assured of help from the City of
to Cancun, the State of Quintana Roo, FONATUR and Mexico City.
Jan.1990

The attorneys and Board Members of Costa have met with the above groups numerous times. More than $350,000 has been spent trying to recover the project.

Jan.1990---FONATUR Officials attend Costa's General Assembly in Cancun and assure those present of their good intentions.

Later, the same FONATUR Officials recognized a small group of contract-vendees and urged them to pursue their goals.

May 1990---A group of Costa members form the Dunas Educational
to Action Committee (DEAC) to inform others of the dangers
Present of doing business in Mexico. They picket Mexican Consulates. They visit airports and distribute warnings to people travelling to Mexico. They attend investment seminars and distribute literature describing the pitfalls of investing in Mexico.

FONATUR informs Costa that they will not do business with them because of the actions of DEAC.

The Board continues to seek a resolution. The help of Senator Paul Simon and several other senators and congressmen is secured.

The Board has appealed to SCOFI (the Mexican equivalent of the Commerce Department). The Costa Group is focusing on the upcoming trade hearings in Washington and is working with the media.

Mr. McNamara, a member of Condiminos Costa Caribena, A.C., in his statement will discuss his group's difficulties with a Cancun project funded by the group's members. Mr. McNamara asks that provisions be included in the proposed U.S.-Mexico Free Trade Agreement to help protect foreign investors from such harassment and delays.

Chairman GIBBONS. Thank you, Mr. McNamara, and your entire statement, without objection, will be put into the record.

Ms. White.

STATEMENT OF CHRISTINE WHITE, REPRESENTATIVE, THE VALMARVEST ASSOCIATION

Ms. WHITE. I am Christine White and I am representing Valmarvest Association. We are 103 American and 14 Canadians who invested in a tourist real estate property in Puerto Vallarta. Our property has been virtually seized in violation of Mexican law by large companies, including a government-run bank and government officials, including one very influential PRI politician.

Valmarvest is taking a position only on one issue of the free trade agreement. The purpose of our statement is to prevent the free trade agreement from luring other American businessmen and investors into similar costly traps, such as I and Mr. McNamara have just gone over.

What we want is to ensure that within the agreement are incorporated reliable guarantees of economic rights. We feel it is essential that monitoring devices be included, as well as mechanisms for dealing with complaints of economic right abuses.

We are not here to try to ask for your assistance in having our investment returned, but rather to make sure that in the future, these handicaps are addressed by this agreement.

Thank you.

[The prepared statement follows:]

The VALMARVEST Association
20 Corporate Park, Suite 290, Irvine, CA 92702

STATEMENT ON THE PROPOSED NEGOTIATION
OF A FREE TRADE AGREEMENT WITH MEXICO

SUBCOMMITTEE ON TRADE
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
FEBRUARY 28, 1991

THE ECONOMIC RIGHTS PROBLEM: A PROPOSAL TO ADDRESS IT

Differences between the polity of Mexico and that of the United States are very real, deep and wide. These differences can be surmounted, and they should, but it would be very risky and expensive to ignore them within the framing and negotiation of a Free Trade Agreement with Mexico.

A difference of great concern is unequal accountability before the Law. In principle, Mexico has pretty decent laws; if they were evenly enforced, it would be safe to do business or invest down there. But they are not enforced evenly. Ordinary people have to abide by them (and foreigners are ordinary people), but the power elite enjoys impunity. Besides ruling the whole central and local government machinery, the power elite controls all business of consequence. Accordingly, a foreigner doing business or investing in Mexico will most likely deal with people who can encroach on his economic rights with impunity, even to the extent of seizing his assets in unfettered disregard of all laws and contracts.

Progressive leaders within the ruling PRI Party are well aware of this problem and wish to cure it. Indeed, the platform approved at the latest Party Congress contains a plank vowing "to fight all impunity and foster a culture of legality", but there is a wide gap between this avowed goal and everyday Mexican reality. It is all too common in Mexico for businessmen and investors to be ensnared in a culture of illegality.

It is imperative to address this problem in the negotiations of the Free Trade Agreement. To this end, we propose that the Agreement be made contingent on the following measures:

- o The creation of a Mexican National Economic Rights Commission, having the purpose and charter of dealing with complaints of Economic Rights abuses. This Commission would be a Mexican body under full Mexican jurisdiction, involving no encroachment whatsoever on Mexican sovereignty.

- o The creation of a bilateral United States-Mexico Office of Economic Rights, which may be optionally used by citizens of either country as a vehicle for submitting complaints to the Mexican National Economic Rights Commission. The Office would have no jurisdiction over any actions taken by the Commission in connection with any Economic Rights complaints; however, the Commission would be required to provide the Office with periodic reports on the progress of the cases submitted through the Office's agency. The Office would in turn be required to publicize such reports to the press of both countries and to the respective complaints' originators.

Clauses embodying these measures would put an end to the current lack of equal protection under Mexican Law, which discourages the expansion of trade, business and investment activities in Mexico. There is no reason to expect objections to such clauses by the Mexican Government. The recent creation of the Mexican National Human Rights Commission, promptly instituted by President Salinas upon the voicing of Human Rights complaints, is a favorable precedent. The above noted plank in the recent PRI Party Congress platform is another positive precedent. That same

platform also states that "an effective environment can be achieved only if full exercise of rights and democratic practices are assured within the Country", a clear indication that the current proposal will not be viewed as an encroachment on Mexican sovereignty.

MEXICAN ECONOMIC POLICIES: PLUSES AND MINUSES

From 1914 through 1946, Mexico was governed by military men, typically inclined toward a command economy and hostile to business. In the 1930's, in particular, socialist idealogy prevailed and most of the economy was put under Government control. This trend was reversed by General Avila Comacho, the last of the military presidents, who recoiled from socialism and encouraged the expansion of private enterprise. His civilian successors built upon his policies. In the sixties, sixty percent of the Mexican economy was in private hands, and the country experienced considerable economic growth. But in the seventies the trend shifted again to widespread State control, inspired this time by greed rather than ideology. Nationalization handed the power elite control of all business, but it destroyed the incipient prosperity of the sixties, and caused sharp economic polarization.

President Salinas's rise to power has changed the economic climate for the better. His Administration has returned several State companies to private hands, and plans to return still more, but oil and energy are being excluded for privatization. It has also reduced import tariffs and restrictions, but for now the reduction is of little significance, since the market for imports is very limited in Mexico. President Salinas appears determined to move the Mexican economy toward free market practices, but he has not yet departed from some of the command economy policies he inherited from his predecessors.

One such policy is the Economic Stabilization and Growth pact implemented in 1988. It is an "agreement" by Labor and Business to salary and price controls. The agreement is far from spontaneous; its signatories have openly stated that they were coerced. The Pact has ushered modest economic growth (mainly fueled by export), but severely curtailed the purchasing power of the people (by about forty percent under the previous De La Madrid Administration, and a further sixteen percent under the Salinas Administration thus far). At the latest Pact extension last November, Labor "agreed" to an eighteen percent raise in the minimum salary, well below the inflation rate. In return, Business pledged to freeze prices, in the face of increases in the cost of energy and other Government-controlled services. The Pact is a hallmark of command economy, and restraint of free domestic trade. By continuously eroding the purchasing power of salaries, it fans the threat of social unrest.

To contain social unrest, the Mexican Government is pouring more money into the "Pronasol" welfare program, which gives free tortillas and subsidized milk to lower income people, and finances scattered pork barrel projects. The opposition calls it a vote-buying scheme, a charge that the Government obviously denies. Even if the vote-buying aspect is cast aside, it is undeniably a program that tries to buy the acquiescence of the Poor to policies that make them poorer yet.

Piddling salaries and increasing fiscal and regulatory pressure are driving more of small business underground. Attempts to enforce the Law on the underground sector often backfire, as happened recently in a Mexico City neighborhood, whose entire population took to the streets to protest raids on underground merchants. The Government had to relent. The underground economy may be a path out of starvation, but it certainly does not make for an attractive market.

Though short of giving a full picture of Mexico's economic policy, the elements presented above depict its nature. It is a policy of making the Country into a pool of cheap labor. That

helps with exports, and the Mexicans hope it will also make for a strong lure for foreign investment. Thus far, the lure has worked only in the Maquiladores sector, which is sheltered from Economic Rights abuses because it is quasi-extraterritorial, and exposed to scrutiny form across the nearby border. But even with more cheap-labor-induced investment, the Mexican economy would stay weak, still offering modest market opportunities for American goods and services. To make the economy grow, the purchasing power of the masses has to be improved; it is instead being depressed.

The mixed record of President Salinas's economic policies stems not so much from lack of reformist intent as from the inertia of the system, and the fact that his clan is small, though made of bright, highly educated men. Clans are all-important in Mexican politics; to broaden support for his government, President Salinas had to be content with placing his men only in the Cabinet posts that deal with the economy, leaving the political posts to members of other clans. But then, most of his Cabinet members have no strong loyalty to him or each other; that puts a dent in his authority over Cabinet and Party.

After the reformist wave of 1989, the Party's old guard has regrouped, trying to protect, with renewed intransigence, its privileges, and the impunity before the Law that shores them. President Salinas has not turned his back on reform (he pushed a reformist platform at the recent Party Congress), but he is be forced to come to term with his Party's apparat. That may well be the reason why he has not shed the command economy yet, and keeps pursuing a cheap labor policy, which suits the power elite just fine, but runs counter to American interests, as it tends to drain jobs away without opening a sizable market to American goods and services.

If Mexican economic policies instead promoted diffuse entrepreneurship and investment, prosperity would spread and the great potential of Mexican market would be unlocked. A balanced North American Common Market could then be created that would lead to a better allocation of resources and production facilities, much to the benefit of both Mexico and the United States. But as long as in Mexico there is no equal accountability before the Law nor equal protection under the Law, entrepreneurship and investment are deterred, mass poverty prevails, and the Mexican market stays weak. Reliable guarantees of Economic Rights in Mexico, therefore, are the first steps needed in order to allay inconsistencies between Mexican economic policies and the goals of the proposed Free Trade Agreement. In addition, in negotiating the Agreement, no effort should be spared to encourage the Mexican Administration to shed the remainders of the command economy and remove barriers to free trade within Mexico, not just at the border.

A FEW WORDS ABOUT THE VALMARVEST ASSOCIATION

We are 117 Americans and Canadians who invested in a tourist resort real estate project in Puerto Vallarta, Mexico. Our property has been virtually seized, in brazen violation of Mexican Law, by a cabal of large companies (including Bancomer, the second largest Mexican bank and a Government company) and powerful individuals (including a very influential PRI politician, Mr. Avina Batiz). The purpose of our statement is to prevent the Free Trade Agreement from becoming a vehicle for luring other American businesses and investors int similar costly and demeaning traps. We want to warn that in Mexico such traps are sprung not just by small fly-by-night outfits, but also by large, nationally established companies. We assert that cases such as ours must be taken into account in the negotiations of the Free Trade Agreement, but categorically stress that we are not seeking redress from this Honorable Subcommittee, nor from the American negotiating team, in connection with our Mexican ordeal.

Chairman GIBBONS. Both of you tell stories that I am familiar with; they have happened in my own State of Florida, Mr. McNamara, numerous times. And my heart goes out for you because I realize nobody's savings are unlimited, and I imagine it will be very hard to recoup those savings.

I am not sure that we can tackle those problems in this agreement. We will ask our negotiators to pay some attention to this and to see what can be done. Florida, for instance, Mr. McNamara, as I recall, has developed laws that require that the downpayments or something such as I guess you had in it be put in escrow and kept separate from regular construction funds or the other funds of the corporation until the project is completed. But do not take my word for it. If you invest in Florida, get some wise counsel down there, some good lawyer.

Mr. MCNAMARA. We thought we had one.

Chairman GIBBONS. Yes, a tricky business, a tricky business, developing property. And I hope you enjoy your stay in Florida.

Mr. MCNAMARA. Thank you very much. If I could just finish with one point, sir?

Chairman GIBBONS. Certainly.

Mr. MCNAMARA. My niece, in 1982, sight unseen, did the identical thing at another condominium in Cancun which has been absolutely magnificent to a point where she has now purchased additional property which has tripled in value in the last year.

She also bought 4,000 cubic feet of air directly above my condo which was never built. So she did not go in there stupidly either. She went in with the knowledge that this thing was going to be terrific. And it was legitimate real estate dealers. We were not dealing with fast talk. But the poor fellow that was building the place overbuilt.

He started out with 492 units and he built 1,062. The Government came down and fined him 1.8 million. He was a Spaniard, and there is little love lost between the Spaniards and the Mexicans; so he took his 1.8 million and went to Spain. That is what caused most of the problem.

But this actually happened under the nose of the Government of Mexico, and that is what frightens me for the future people who are going to be investing down there, the little people. The big corporations are pretty strong; the General Motors, we do not have to be concerned about them. Or as they say in here, the liquor manufacturers or whoever is going in down there. We are concerned about the people like us who work hard for our money and would like to see some of it at the end of our lives.

Chairman GIBBONS. Well, as I say, I have seen it happen numerous times in my own State of Florida. There is just no happy answer to it.

Mr. MCNAMARA. Well, there are shysters everywhere, sir, and I am afraid we have had more than our share down there.

Chairman GIBBONS. Yes, I would imagine so.

Mr. Schulze.

Mr. SCHULZE. Just one question for Mr. McNamara. In reading over your full statement, there seems to be some union problems, and we have had some testimony that the unions are not strong,

but when I read your presentation, it seems to show that there is a fair amount of union strength.

Is that only in the construction field or did strong unions contribute somewhat to the problem?

Mr. MCNAMARA. There is an excellent article in this month's Reader's Digest about President Salinas, a man educated at Harvard, has his masters in economics from Harvard, who is going to be the savior of Mexico according to the article and according to a lot of hearsay, what is coming out of the state down there.

The first thing he did was to go after the head of the Mexican unions who lived in a fortress surrounded by machineguns. He had to go in with the army to wrestle the man and get him into jail. I think that tells you the story of what Mexican unions can be. I could tell you great stories, but they would be libelist.

Mr. SCHULZE. So what you are sort of saying or inferring is that it would not be the place to go to get away from a union problem? In other words, American business would not go down there looking for weak unions?

Mr. MCNAMARA. When a man goes to work, he expects to have an income, you and I and everyone else. When the man was fined 1.8 million and disappeared, a lot of that was salary money for the union people. And I cannot really be angry with someone for wanting to be paid. They are not paid that much. If you earned $400 a month down there as a good bricklayer, a good construction man, that is a lot of money.

Granted, the expenses are not that great for the Mexican nationals, but they are still entitled to their moneys like anyone else. And I had nothing against the unions. The problem we ran into was much more complex than that because it involved other areas.

Mr. SCHULZE. Thank you.

Thank you, Mr. Chairman.

Chairman GIBBONS. Well thank you all very much. This concludes the subcommittee's hearings on the proposed free trade negotiations with Mexico. The record will remain open for any further written statements until the close of business on Friday, March 8, 1991.

Thank you very much.

[Whereupon, at 2:37 p.m., the hearing adjourned.]

[Submissions for the record follow:]

STATEMENT OF THE ALUMINUM ASSOCIATION, INC.

The 86 member companies of The Aluminum Association, Inc. have a strong interest in international trade negotiations affecting world aluminum markets. On a number of occasions and in a number of forums, we have expressed our support for an open international market for aluminum ingot and mill products. Most recently, we have been strong and early supporters of the U.S. government's market access position in the Uruguay Round.

The members of The Aluminum Association are domestic producers of primary and secondary ingot, aluminum mill products and castings. Mill products include sheet and plate; foil; extrusions; forgings and impact extrusions; electrical conductor; and wire, rod and bar. The Association's membership also includes producers of master alloy and additives. Aluminum Association member companies operate 300 plants in 40 states.

The Association is a primary source for statistics, standards and information on aluminum and the aluminum industry in the United States.

The Aluminum Association supports the immediate elimination of tariffs and non-tariff measures by the United States and Mexico. This position is consistent with our industry's long-standing policy of fostering a barrier-free world aluminum market and fair competition. The Association does recognize Mexico's level of economic development and has no objection to a gradual rather than immediate elimination of specific aluminum tariffs where such a gradual elimination would be appropriate.

The Aluminum Association does not object to the continuation of the current Generalized System of Preference (GSP) duty-free treatment extended to Mexican aluminum imports during a transition to a tariff-free environment. Likewise, we would expect that U.S. aluminum exports to Mexico now receiving duty-free treatment continue to enjoy these benefits.

The Aluminum Association urges U.S. negotiators to seek assurances from Mexico that during any transition period, the Mexican government will not enact new non-tariff barriers affecting aluminum trade. Further, we would ask the U.S. negotiators to seek assurances from Mexican officials that no form of subsidies will be extended to the Mexican aluminum industry during the transition, and that other unfair trade practices such as dumping be prohibited.

Should any of these issues become problems during the negotiations, the U.S. industry would need to reassess its position at that time.

Export and import statistics on aluminum trade between the United States and Mexico are attached.

U.S. Imports for Consumption from Mexico
And U.S. Exports to Mexico
Aluminum Ingot, Semi-fabricated Products & Scrap
Figures in Thousands Pounds

Issued: January 28, 1991

U.S. Exports to Mexico	1987	1988	1989	1990 (10 Months)
Total	127,114 ($111,778m)	173,856 ($180,218m)	204,411 ($241,541m)	171,405 ($200,934m)
Ingot	14,990	30,791	42,635	43,151
Scrap	47,778	65,828	59,645	37,385
Semi-Fabricated	64,347	77,237	102,131	90,869
Sheet & Plate	51,137	56,389	73,905	62,221
Foil	1,459	1,168	2,726	2,602
Wire, Rod & Bar	4,188	5,075	9,038	7,452
ACSR & Bare Cable	966	3,734	4,625	4,513
Ext., Pipe & Tube	3,872	6,008	9,301	9,566
Powder & Paste	1,069	1,384	1,564	1,110
U.S. Imports from Mexico				
Total	46,012 ($21,940m)	66,814 ($54,267m)	60,371 ($41,595m)	62,788 ($33,869m)
Ingot	3,248	15,619	1,702	1,636
Scrap	33,743	37,876	45,852	53,525
Semi-Fabricated	9,021	13,318	12,818	3,292
Sheet & Plate	3,499	6,463	5,260	3,371
Foil	24	23	9	891
Wire, Rod & Bar	1,143	2,603	5,930	1,201
ACSR & Bare Cable	699	18	-	-
Ext., Pipe & Tube	3,422	3,422	742	251
Powder & Paste	233	306	440	904

Per Capita Aluminum Consumption—

MEXICO

		1989	1988	1987	1986	1985	1984	1983	1982	1981	1980	1979
1.	+ Primary Aluminum Production	71.7	68.3	60.2	37.0	42.7	44.0	39.7	41.2	43.2	42.5	43.2
3.	+ Imports of Ingot	16.5	21.7	19.9	35.2	78.7	45.2	17.5	32.3	58.8	63.5	56.1
4.	+ Imports of Mill Products	47.5	29.8	35.2	20.6	25.7	15.3	6.2	62.2	82.9	49.4	36.4
5.	+ Recovery of Secondary	13.2	4.5	8.8	16.4	22.3	19.8	15.1	25.8	20.3	17.1	14.9
6.	- Exports of Ingot	8.6	16.1	9.8	8.0	5.0	1.9	0.9	0.2	*	*	*
7.	- Exports of Mill Products	12.0	13.9	11.5	4.1	12.1	6.2	1.3	1.1	3.1	3.4	3.1
8.	= Apparent Aluminum Consumption	128.2	94.2	102.8	97.2	152.4	116.0	76.4	160.2	202.1	169.3	147.4
9.	- Beginning Inventory	3.0	4.6	6.7	8.2	6.0	7.5	13.4	4.5	2.0	1.5	1.8
10.	- Ending Inventory	5.8	3.0	4.6	6.7	8.2	6.0	7.5	13.4	4.5	2.0	1.5
11.	= Inventory Change	2.8	(1.6)	(2.1)	(1.5)	2.2	(1.5)	(5.9)	8.9	2.5	0.5	(0.3)
12.	= Aluminum Consumption	125.4	95.9	104.9	98.7	150.2	117.5	82.3	151.3	199.6	168.8	147.7
13.	Mid-Year Population (Millions)	84.0	83.0	81.0	78.0	75.0	73.0	72.0	70.0	68.0	67.0	67.0
14.	= Per Capita Consumption (kg) (1)	1.5	1.1	1.3	1.2	2.0	1.6	1.1	2.3	3.0	2.5	2.2
15.	= Per Capita Consumption (kg) (2)	1.5	1.2	1.3	1.3	2.0	1.6	1.1	2.2	2.9	2.5	2.2

NOTES: (1) Without Inventory Change
(2) Adjusted for Inventory Change

Source: Instituto Mexicano del Aluminio, A.C.

UNITED STATES OF AMERICA

		1989	1988	1987	1986	1985	1984	1983	1982	1981	1980	1979
1.	+ Primary Aluminum Production	4,030.2	3,944.5	3,346.9	3,038.7	3,499.7	4,099.1	3,353.3	3,273.7	4,488.7	4,653.6	4,556.9
3.	+ Imports of Ingot	925.6	1,027.3	1,245.5	1,348.8	868.7	882.0	742.7	816.3	844.7	526.8	517.8
4.	+ Imports of Mill Products	427.4	440.0	455.9	493.9	463.0	494.3	280.5	206.7	137.9	76.2	193.4
5.	+ Recovery of Secondary	2,044.0	2,122.0	1,996.0	1,773.0	1,762.0	1,790.0	1,773.0	1,685.6	1,789.9	1,576.7	1,612.1
6.	- Exports of Ingot	594.5	400.1	281.2	209.6	347.3	259.6	360.7	363.9	312.3	648.6	182.1
7.	- Exports of Mill Products	497.0	388.3	287.0	203.5	199.3	218.8	202.1	223.4	309.2	346.3	282.0
8.	= Apparent Aluminum Consumption	6,335.7	6,747.4	6,466.1	6,241.3	6,046.8	6,757.2	5,586.7	5,175.0	6,439.7	5,838.4	6,416.1
9.	+ Beginning Inventory	1,882.8	1,893.8	2,235.3	2,342.8	2,653.5	2,295.4	2,812.0	2,996.7	2,302.5	2,324.8	2,492.1
10.	- Ending Inventory	1,821.6	1,882.8	1,893.8	2,235.3	2,342.8	2,653.5	2,295.4	2,812.0	2,996.7	2,302.5	2,324.8
11.	= Inventory Change	(61.2)	(11.0)	(341.6)	(107.5)	(310.7)	358.1	(546.6)	(184.7)	694.2	(22.3)	(167.3)
12.	= Aluminum Consumption	6,396.9	6,758.4	6,807.7	6,348.8	6,357.5	6,399.1	6,133.3	5,359.7	5,745.5	5,860.7	6,583.4
13.	Mid-Year Population (Millions)	248.2	245.8	243.7	241.0	238.7	236.5	234.0	231.5	229.3	227.7	220.6
14.	= Per Capita Consumption (kg) (1)	25.5	27.5	28.5	25.9	25.3	28.6	23.9	22.4	28.1	25.8	29.1
15.	= Per Capita Consumption (kg) (2)	23.8	27.5	27.9	26.3	26.6	28.9	26.2	23.2	25.1	25.7	29.8

NOTES: (1) Without Inventory Change
(2) Adjusted for Inventory Change

Source: The Aluminum Association, Inc.

MEXICO/UNITED STATES (1989)

Population	33.8% of U.S.
Total Aluminum Consumption	2.0% of U.S.
Per Capita Consumption	5.9% of U.S.

STATEMENT OF THE AMERICAN DEHYDRATED ONION & GARLIC ASSOCIATION

Introduction

The American Dehydrated Onion and Garlic Association (ADOGA) is an association of U.S. companies which dehydrate onion and garlic. ADOGA was established in 1956 as a non-profit, voluntary commodity association organized to promote the industry, standardize trade specifications, support research programs and generally improve the quality and safety of U.S. dehydrated onion and garlic products.

The ADOGA membership consists of the three major producers of dehydrated onion and garlic in the United States: Basic Vegetable Products, Gilroy Foods and Rogers Foods. These companies operate plants primarily in rural, central California employing directly about 2,700 workers and indirectly approximately 2,500 additional workers. The ADOGA member companies constitute a significant part of the economic base of the rural communities where their plants operate.

The industry is both capital and labor intensive. Although there are two other small companies in California and Oregon doing similar dehydration activities, ADOGA member companies supply approximately 90 percent of the domestic market for dehydrated onion and garlic products. ADOGA members also supply a majority of the world market. The finished product reaches the consumer primarily as a flavoring or seasoning ingredient in processed foods or industrial food production. It can, however, also be found packaged separately as a spice. The product may take a powdered form, or remain in larger pieces--minced, chopped, sliced or granulated.

The domestic dehydrated onion and garlic industry is a small, highly specialized agricultural industry. The processors contract to grow a specially formulated seed with California growers from the U.S.-Mexico border all the way to the Oregon border. Because of the specialized nature of the industry, the processors design, build and maintain all their own harvesting machinery. The sophistication of the machinery is state-of-the-art, with the use of such advancements as laser technology to differentiate between the bulbs and the dirt clods. In sum, the domestic industry works hard to maintain a competitive position in the world market.

Discussion

All of the ADOGA member companies are preparing themselves for the ever-evolving free trade environment which the U.S.-Canada Free Trade Agreement, the ongoing GATT negotiations, and the U.S.-Mexico negotiations epitomize. The member companies know that they must be prepared to compete with countries whioh enjoy far less expensive labor, less food safety regulation, and more government subsidies. In truth, the domestic dehydrated onion and garlic industry has prided itself on its high quality product and sensitivity to food safety; its relationship with its labor force; and the fact that it receives absolutely no subsidy of any kind from the U.S. Government. The ADOGA member companies are willing to work hard to be competitive, but we have concerns that countries such as Mexico may pose an unfair competitive threat to our industry.

Experts who have analyzed the possible effects of a U.S.-Mexico free trade agreement acknowledge that such an agreement could result in job losses in the United States as companies shift production to lower-cost Mexico, or as lower-cost Mexican products compete head-to-head with U.S. products. Production shifts are expected in numerous industries but the horticultural industry is

expected to be the most disproportionately affected. This possibility concerns the ADOGA member companies.

One of the primary benefits associated with a U.S.-Mexico free trade agreement is increased market access, but clearly until issues such as Mexico's monetary fluctuation and inflation, exchange rate policy, transportation regulation and capacity, and other infrastructure matters are addressed, access to Mexican markets by U.S. companies will be impeded. The undeveloped infrastructure of Mexico--the inadequate highways, railroads, bridges, utilities, ports, storage facilities, educational system, financial system, and more--pose a greater threat to free trade than any transparent import tariff could. If any realistic free trade agreement is to be reached with Mexico, problems associated with the inadequate Mexican infrastructure must be a high priority issue in the early portion of the negotiations.

The disparity between U.S. and Mexican laws and regulations, applicable to agriculture and food safety also causes us concern. The ADOGA membership has set for itself the highest of standards for product safety and quality. Through U.S Department of Agriculture (USDA) and Food and Drug Administration (FDA) regulations, U.S. producers are under strict Federal direction on food safety and environmental standards. Although Mexico has its own agricultural standards, its food safety and quality standards are not as rigorous as those imposed by the U.S. Government or self-imposed by ADOGA. We believe that adherence to and insistence upon ADOGA-level sanitary standards by producers of foreign competitive products must be non-negotiable when based upon scientific fact and not simply used as non-tariff trade barriers.

For example, many of the pesticide products which have been banned in the United States are still available to Mexican farmers. Mexican law still allows producers to use some of the less expensive, yet effective, agricultural chemicals that have been banned by the Environmental Protection Agency in the United States. As a result, producers in Mexico can grow pest-free crops for less money than producers in the United States. When they import their cheaper agricultural products into the United States, the products will have pesticide residue levels higher than allowed for domestic production but will be able to be priced advantageously to such foreign competition.

The Association's goal is not to eliminate the imposition of stringent food safety regulations in the United States. We support a clean and healthy food supply. However, the playing field must be level. Mexican producers should be required to meet the same high standards for food safety as U.S. producers with regard to their exports to the United States. Without harmonization of such standards the inequitable regulatory burden imposes a non-tariff barrier on domestic agriculture and places the domestic industry at a trade disadvantage.

Food safety and quality are issues that ADOGA members have been concerned about for years. Back in 1960, the ADOGA members established uniform product standards for dehydrated onion and garlic to inform and assure the American consuming public of the uniform high quality of the product. This concern, now colloquially termed "food safety", is even more of a national concern than it was in 1960. It would be truly unfortunate if, after all these years of the ADOGA member companies ensuring the high standard of their dehydrated onion and garlic, Mexico were allowed to flood the market with low-grade products. Not only would the product quality be diminished for the consumer, but the domestic industry may deteriorate or disappear due to the increased unfair competition.

Another potential problem which concerns the ADOGA member companies is the effect a free trade agreement will have on farm labor wages and resources in California. The dehydrated onion and

garlic industry, like many in California, depends heavily on the assistance of Mexican laborers during the intense harvest season. When the crops are ready to be harvested, there is little time to go searching for scarce laborers. ADOGA would caution the negotiators to keep this very important issue in mind.

A major complaint the industry has had in dealing with Mexican agriculture is the inability to obtain accurate figures on Mexican production costs, prices, labor wages, production acreage, product quality and subsidies, both direct and indirect. They fear that without an initial, comprehensive evaluation of Mexican agricultural production and its food processing business, the United States will eliminate all trade barriers coming North only to continue to be subject to hidden trade barriers going South.

As with the U.S.-Canada Free Trade Agreement, one of the greatest fears the ADOGA membership has involves the possibility of transshipment of goods through the country of the new free trade partner. In the Canada agreement, strict rules of origin combined with the fact that there is very little production of dehydrated onion and garlic coming out of Canada, allayed our fears. If products were to be transshipped through Canada, the increasing import numbers from Canada would be immediately obvious. Such is not the case with Mexico. Mexico's climate and production capabilities for dehydrated onion and garlic are such that it would be much more difficult to expose transshipment through that country. Again, the importance of accurate production numbers from Mexico is underscored. Accurate production statistics together with a tightly drafted rule of origin will help protect against transshipment.

Many observers have compared the U.S.-Mexico negotiation to the recently enacted U.S.-Canada Free Trade Agreement. While there are similarities in the negotiating process, the diversities between the U.S. and Mexican cultures and economies are many when compared with the few diversities between the U.S. and Canada. Differences include the asymmetrical levels of economic development, diverse traditions, different languages, and disparate levels of experience in conducting such free trade negotiations.

The process of the U.S.-Canadian free trade negotiation took several years to complete despite the two countries' similar economies. Likewise, Mexico and the United States should study carefully the possible impact of a free trade agreement before embarking on negotiations, and only then proceed slowly to phase in the concessions. As an additional protection for those industries considered to be trade sensitive and disproportionately impacted, a substantial phase-in period should be established. While a ten year phase-in was acceptable for the U.S.-Canadian Free Trade Agreement, some thought should be given to a longer period for the horticultural industry which is the most likely to be highly impacted by a free trade agreement with Mexico.

Conclusion

The American Dehydrated Onion and Garlic Association opposes a U.S.-Mexico free trade agreement, but we are also aware that its establishment is a very strong possibility. As members of one of the industries which has been listed by the International Trade Commission as one of the most negatively impacted, we urge Congress to maintain a tight rein over the progress of the negotiations and to urge the Administration to take exacting measures to protect the trade sensitive industries.

ADOGA is and has been more than willing to compete with any other country with the quality and price of its products. But the rules for competing in a "free trade" environment must also be fair. Our standards--quality, environmental, sanitary, labor,

health, safety, wage--are all much more arduous than those in Mexico. As a result our production costs are higher. We do not resent the standards. We do resent, however, our own government giving away our trade protection and subjecting the entire domestic industry to possible annihilation in the name of free trade. As a result, we oppose the enactment U.S.-Mexico free trade agreement until our above-stated concerns have been satisfactorily addressed.

TESTIMONY PRESENTED TO
THE SUBCOMMITTEE ON TRADE, COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

HEARING ON PROPOSED NEGOTIATION
OF A FREE TRADE AGREEMENT WITH MEXICO

WASHINGTON, D.C., FEBRUARY 20 - 21, 1991

BY
PRIMITIVO RODRIGUEZ, DIRECTOR
MEXICO - U.S. BORDER PROGRAM
AMERICAN FRIENDS SERVICE COMMITTEE

Mr. Chairman and members of the Subcommittee, as a representative of the American Friends Service Committee, I would like to share with you a number of questions and concerns regarding the scope of the trade agreement you are considering with Mexico. The proposed agreement deserves your support only to the degree that it truly will promote the well-being of the people of our two nations.

The American Friends Service Committee is a Quaker organization that is committed to the principle that all human life is sacred and deserves respect. That principle 50 years ago led to development work in Mexico and support to farm laborers and immigrants from Mexico in this country, work in which we remain engaged today. It has led to two decades of work with *Maquila* workers, most of whom are women, along the border, and to more recent efforts to monitor immigration law enforcement in Texas, Florida and California. It has led to advocacy for strengthened labor rights of all workers in this country. I speak on the basis of these combined AFSC experiences.

The launching of free trade talks comes at a moment of paradox in the United States' relationship with Mexico.

Following a decade of deteriorated relationships in which each country saw the other as a threat to its national security, cultural identity and economic well-being, we are now at a moment of hope. The democratic awakening during the Mexican presidential elections of 1988, the softening of international tensions in Central America and the inaugurations of the Bush and Salinas administrations all have contributed to a more positive relationship. In this context, the proposed talks on a free trade agreement represent a radical and far reaching change of public attitudes and policies between the two countries.

The other side of the paradox is more sobering. It consists of several related factors:

- Mexico is in the midst of a process of massive decapitalization. Beginning in the 1980s the country became a net exporter of capital to industrialized nations, especially to the United States. Capital flight, a huge foreign debt service and remittances from U.S. corporations have led to Mexican subsidization of the U.S. economy.

- Mexico's economic crisis has forced many of its people, including historically high levels of Mexican women, to emigrate to the United States. The United States has responded with little or no understanding of this immigration as a displacement of people caused by decapitalization of their country and by the transnationalization of production. Popular perceptions and government policy have viewed Mexican immigrants as threats to this country's well-being.

- Anti-Mexican attitudes have grown from the perception of the threat to U.S. jobs and in response to strains of racism. Combined with pressures for tighter border control, these attitudes have led to an alarming level of violence against Mexicans, particularly at the border and by law enforcement officials.

- The Federal Government's response to Mexican immigration has been to criminalize the right to work for undocumented workers. Rather than reduce the level of immigration, however, the law has fueled abuse and

exploitation of migrant workers and has caused widespread discrimination against U.S. workers.

- Cheap Mexican labor has benefited the United States, both as *maquiladora* workers on the border and as immigrant workers in many parts of the United States. This labor pool has resulted from Mexico's inability to provide jobs for its people or protect existing jobs and wage purchasing power; it has contributed further to the process of decapitalization.

These factors must be addressed by the free trade talks if this moment of hope in U.S. - Mexican relations is to lead to corrections in the unfairness and imbalance in the current level of economic integration and promote the well-being of the people of the two countries.

I want to focus in particular on the U.S. - Mexico border, the region most affected by economic integration between the two countries and the region where AFSC has worked closely with border communities and immigrants.

Let me quote from the introduction to AFSC's 1990 publication, The Global Factory:

- Through its work in the United States and abroad, the American Friends Service Committee (AFSC) has come to recognize that one of the most pervasive forms of violence in the world today is the violence of economic exploitation. We see the lives and futures of families, communities, and whole countries blighted when an unbridled search for profits overrides consideration of the social good.

- AFSC has worked along the Mexico-U.S. border for more than twenty years on programs dealing with health, human rights, and economic development. In the 1970s we became concerned about the impact of *maquiladoras*, the foreign- (mainly U.S.-) owned assembly plants in Mexico strung along the 2000-mile border between the two countries. We saw at first, most vividly, the impact on the health and safety of the young Mexican women who worked in the plants and the serious distortion of the economic development of the borderlands.

- In the course of this work, we have become increasingly aware of the other side of the *maqiladoras*--the harmful impact on the many U.S. workers who are left behind as their jobs move across the border. We began to see the need for a direct dialog between these two groups of workers--both caught in the grips of the same large-scale economic phenomena, both with little information about the lives and aspirations of their counterparts on the other side of the border. Increasingly, our work has reflected this emphasis on cross-border communication.

- *Maquilas*, of course, have their parallels in many nations around the world, in Asia, Latin America and the Caribbean, and, increasingly, in Africa. In all of these areas young women have been targeted as a primary labor force for transnational corporations, as manufacturing plants leave the advanced industrial world in search of ever-cheaper labor. The problems associated with this new "global factory"--unjust and inhuman living and working conditions, sexual exploitation, social disruption, and distorted economic development--appear to be virtually universal.

A woman who worked in the *maquiladoras* for twenty years offered a precise description of the industry's impact on her life, and the life of other co-workers and their communities when she said: "Why should people pay such a high price to get a job?" In human terms, the *maquiladora* industry clearly has had a higher economic and social cost than the benefits it has brought to workers. If this trend is not corrected, *maquiladoras* will end up seriously undermining Mexico's chances for economic reconstruction, industrial development, and democratic revival.

The Mexico-U.S. border has changed during the past ten years as in no other period in its history. Change, as suggested above, has come as a mixed blessing. Investment, trade and job creation are at a peak, with the Mexican side getting the biggest share of industrial growth and jobs. The United States side, on the other hand, is getting the biggest share of trade, savings and real estate development.

Social conditions on the Mexico border with the United States are worsening. Dramatic growth in its labor force and population has not been followed by corresponding growth in education, housing, health care, utility services, infrastructure and environmental protection. Women and the young have borne the primary burden of these failures. Furthermore, labor, civil and human rights of border residents and immigrants have not been protected.

In short, the Mexico-U.S. border lives under the unsolved contradictions of: 1) significant economic change, without equivalent social change; 2) unparalleled dismantling of barriers to the movement of capital and goods, without corresponding dismantling of barriers to the legal movement of people; 3) a promising social and cultural interchange, with an increasing growth of prejudice, crime and abuse.

A trade agreement, if its authors intend it to forge a new economic partnership between Mexico and the United States--and ultimately between the nations of the hemisphere--needs to be coupled with other bilateral or multilateral measures that address these contradictions. Specifically, the trade talks must be conditioned on negotiated agreements on environmental protection, workers' health and safety, labor rights, immigration, and Mexican debt relief. We especially urge inclusion of the recently-drafted standards for *maquiladora* plants in such agreements, proposed by a bi-national coalition of religious, environmental, labor, Latino and women organizations seeking to pressure U.S. transnational corporations to adoopt socially responsible practices within the *maquiladora* industry.

Similarly, labor mobility needs to be addressed in the context of the trade talks in order to provide immigrants and U.S. citizens alike with a more realistic, humane and mutually beneficial policy. International standards for the protection of migrant workers recently approved by the United Nations, as well as new agreements that can be reached in this respect among Canada, Mexico and the United States in the context of free trade negotiations, can guarantee equality of treatment and legal protection of immigrants.

The American Friends Service Committee believes that these related negotiations require an open negotiating process that is accessible to key groups on both sides of the border, including trade unionists, environmentalists, and labor and human rights advocates. Finally, we propose that provision should be made for representatives from these groups--women and men--to be involved in bodies and mechanisms that will monitor the implementation of the trade and related agreements.

We believe that the linking of trade to other outstanding issues between Mexico and the United States and the provision of monitoring mechanisms that include nongovernmental representatives will further democracy and accountability on both sides of the border. It will lead toward a broad consensus regarding the direction and content of the process of integrating the nations of the Americas on a fairer, healthier and more productive basis.

Hearings Before the Subcommittee on Trade
of the House Ways and Means Committee

(February 25, 1991)

STATEMENT OF
THE AMERICAN PIPE FITTINGS ASSOCIATION[1]
ON THE PROPOSED
FREE TRADE AGREEMENT WITH MEXICO

On September 25, 1990, the President notified the House Ways and Means Committee of his intention to enter into negotiations with Mexico for the purpose of entering into a free trade agreement with that country. These hearings were called to obtain the views of affected interests to aid the Congress in determining whether a resolution of disapproval should be entertained under the applicable fast-track procedures.

On February 5, 1991, the President notified the Committee of his intention to enter into trilateral negotiations (United States, Mexico and Canada) with the object of creating a North American Free Trade Zone. Essentially, this was a modification of the prior notice in order to accommodate Canada's desire to participate fully in a negotiation that builds on the United States-Canada Free Trade Agreement. That Agreement came into force in 1989.

Summary of Views

The American Pipe Fittings Association recognizes that in theory a single North American market would stimulate economic rationalization and growth. The inclusion of Mexico would expand that market by close to 88 million consumers and would add close to $200 billion in economic activity (GDP). However, it is difficult to see how an orderly integration of the economies of North America can be achieved in the near term. Whereas economic organization and development are comparable in the United States and Canada, these conditions are quite different where Mexico is concerned. Differences in legal systems and political traditions, as well as language and cultural differences, make the prospects that much more uncertain.

While we do not oppose the concept of a free trade agreement with Mexico, we are concerned that great damage to our industry could result if an eventual agreement fails to provide adequate safeguards against dislocation.[2] In short, we see a danger that U.S. trade policy officials will become unduly enamored of the structural symmetry of a North American free trade zone without sufficient attention to the "real world" impact. The members of the APFA could, we believe, be affected in a substantial negative way, unless certain features are

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1/ The American Pipe Fittings Association (APFA) consists of about 50 domestic manufacturers of iron, steel, brass and plastic lined pipe fittings, pipe hangers and supports for commercial and industrial application. In the wake of the United States-Canada Free Trade Agreement, APFA has changed its By-Laws to admit Canadian members.

2/ Two-way trade in pipe fittings between the United States and Canada and between the United States and Mexico totaled $200 million in 1990. U.S. producers' shipments of pipe fittings from 122 establishments have been around $1.5 billion in recent years. There are 25,000 persons employed in the the domestic pipe fittings and valve industries (SIC 3494) with California, Pennsylvania, Ohio and Indiana accounting for 44% of the total.

incorporated in a North American free trade agreement, as explained below.

1. Conditional U.S. Tariff Phase-Out

U.S. tariffs on pipe fittings range from 4% to 6.2%. To facilitate orderly adjustment, any agreement should provide for an extended phase-out period for those duties (say, over 10 years). We believe, however, that there should be a freeze on any tariff cuts with respect to any Mexican (or Canadian) product subject to an antidumping or countervailing duty order. The tariff rate applicable when the order was issued should remain in effect until the order is revoked.

2. Rules of Origin

A clear and predictable rule of origin would be needed to make sure that the benefit of the agreement extends to products made with substantial North American input. The United States-Canada Free Trade Agreement serves as a useful starting point for this purpose. There, the last country of "substantial transformation" determines national origin. Generally, processing sufficient to change the tariff classification of a product qualifies as a "substantial transformation".

Where pipe fittings are concerned, a change in tariff classification at the 8-digit level of the Harmonized Tariff Schedule should be required in an agreement with Mexico to effect a "substantial transformation". Otherwise, the manufacturers of pipe fittings would not be recognized as a separate, distinct and substantial industry which, in fact, they are. In that connection, an amendment to the rules under the United States-Canada Agreement might be appropriate with respect to pipe fittings which are classified under HTS Heading 7307.

3. Unfair Trade Practices

Our members are concerned that any kind of joint administration or review of the antidumping and countervailing duty laws will reduce the integrity and effectiveness of those remedies to the detriment of U.S. business. It is important that an agreement avoid any provisions that might have that effect.

4. Safeguards

In our view, an agreement between the United States and Mexico should contain a special "escape clause" procedure to prevent rapid and disruptive sourcing shifts attributable in some significant way to the operation of the agreement. The standard for relief should be more predictable and less stringent than the current U.S. escape clause law (19 U.S.C. 2251 et seq.). A similar provision should be incorporated in the U.S. agreement with Canada.

5. Harmonization of Pollution Control Costs

Where U.S. manufacturers of pipe fittings are concerned, the cost of complying with environmental regulation in the United States is substantial. We believe that environmental regulation in Mexico is negligible by comparison. This disparity tends to create an artificial incentive to channel manufacturing operations from the United States to Mexico. This is inconsistent with the supposed objective of a free trade agreement which seeks to allow the free play of market forces to allocate economic resources in the most efficient manner for the benefit of all. Government-imposed pollution control costs should be a neutral factor in business decisions involving North

American production. Accordingly, we believe that any free trade agreement must contain an obligation to harmonize the environmental laws in Mexico and the United States and Canada over a short span of time. Until such harmonization is reached, there should be some mechanism to offset the lower pollution control costs generally applicable in Mexico. Perhaps, a delay in the phase-out of U.S. tariffs should be considered for this purpose.

Conclusion

We urge the Committee to obtain assurances from the Executive Branch that any negotiated agreement will provide meaningful safeguards along the lines described herein. Our members would likely be opposed to any agreement that failed to contain such provisions. Thank you for the opportunity to present our views.

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Comments of the American Soybean Association
for
Subcommittee on Trade
Committee on Ways and Means

The Proposed North American Free Trade Agreement

March 7, 1991

The American Soybean Association (ASA) is a national non-profit organization representing U.S. soybean farmers with members in 29 states. ASA seeks to increase opportunities for U.S. farmer profitability through its market development, research, government relations and trade policy programs.

Soybeans and soybean products, chiefly meal and oil, are a major U.S. agriculture export. In recent years these products have accounted for around 15% of total U.S. farm exports by value. Nearly one half of U.S. soybeans are exported in one form or another to a host of destinations, although our main customers are the European Community, Japan, Taiwan, Korea, the Soviet Union and Mexico.

Export markets are key to the prosperity of soybean farmers. Without these sales, the price of soybeans would drop and many producers would be forced to switch to other crops. There would clearly be a painful adjustment process in our agricultural sector that would affect many crops.

Soybeans are the chief oilseed grown in Mexico, but that country is far from self-sufficient. The United States supplies almost all of Mexico's import requirements for soybeans and soybean meal. Under the Mexican Government's economic liberalization program, import licensing requirements for oilseeds and products were removed last year. Tariffs are significant, however, and are not bound. There is a seasonal tariff of 10% ad valorem on soybeans, while the duties on soybean meal and soy oil are 15% and 10%, respectively.

Mexican Imports of U.S. Soybeans
(1,000 's of metric tons)

	FY-89	FY-90
Soybeans	1,220	894
Soybean Meal	303	328

The value of U.S. soybean and soybean meal exports to Mexico averaged $368 million in the last two fiscal years. Mexico was the fifth largest importer of U.S. soybeans in FY-90 and is a major customer for soybean meal.

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In February 1991 the U.S. International Trade Commission (ITC) released its study, "The Likely Impact on the United States of a Free Trade Agreement with Mexico." The ITC concluded that the proposed free trade agreement with Mexico would benefit American oilseed producers. ASA's international market promotion staff also see great potential in Mexico. The removal of tariffs and other restrictions will provide free access to the Mexican market, further enhancing the geographic advantage U.S. soybean producers already enjoy there. With further opening of the Mexican economy, relatively inefficient Mexican soybean growers may move into other crops, leaving more of the market to imports.

Furthermore, free trade between the United States and Mexico is expected to stimulate economic growth and efficiency in both nations. Experience in developing has shown that as incomes rise, food consumption tends to increase at an even faster pace. The expansion of the Mexican economy will generate demand for animal protein, hence soybean based livestock feed products. Poultry consumption in Mexico is less than one-third the level of the United States, while pork consumption is only about half that of the U.S. Thus, there is considerable potential to expand soybean consumption in Mexico.

The ASA Board of Directors, at its December 1990 meeting, approved the following resolution: " ASA supports the U.S. - Mexico Free Trade Agreement negotiations in a manner that expands U.S. soybean trade." ASA believes that liberalized trade with Mexico can benefit U.S. soybean farmers. Of course, our position on a final agreement will depend on the details to be negotiated over the coming months.

Sincerely,

Merle N. McCann

Merle N. McCann
President

STATEMENT OF THE AMERICAN TEXTILE MANUFACTURERS INSTITUTE, INC.

This statement is submitted by the American Textile Manufacturers Institute (ATMI) on behalf of its member companies. ATMI is the national association of the textile mill products industry (SIC Industry 22). Its members are engaged in every facet of textile manufacturing and marketing and collectively account for more than 75 percent of the fiber consumed by the domestic textile mill products industry.

The American textile industry and the related industries of chemical fibers and apparel manufacturing, the textile industry's largest supplier and customer, respectively, together suffer an unremitting and oppressive burden of imports into their home market. U.S. imports of textile and apparel products during 1990 amounted to more than 16 billion square meters equivalent (sme)[1], triple the amount imported in 1980. This trebling of imports has forced the closing of hundreds of producing facilities in the United States and the loss of over 400,000 jobs since 1980. There can be no doubt that this relentless tide of imports has seriously injured one of the most important manufacturing sectors in our nation and, in the process, many of its workers.

Mexico has been a contributor to this injury. Mexico was the United States' sixth largest foreign supplier of textiles and apparel during 1990, having more than trebled its textile and apparel exports to the U.S. between 1980 and 1990. The ability of Mexico to greatly increase its textile and apparel exports to our market and thereby exacerbate this injury is unquestionably real and is the basis for our concern about the proposed free trade agreement (FTA) between our two countries. The only mechanisms preventing Mexico from putting an additional one, two or three million of its citizens to work producing textiles and apparel for export to the U.S. are our import tariffs and the restraints (quotas) embodied in our bilateral textile agreement with Mexico. Both of these would, of course, disappear in an FTA.

The more one studies the immense economic and social disparities between the United States and Mexico the more it becomes apparent that, from the American perspective, a U.S.-Mexico FTA makes little economic sense and we continue therefore to have very great concerns regarding such an agreement.

[1]Only 12.1 billion sme are "officially" reported by the Department of Commerce.

Nonetheless, if a U.S./Mexico FTA becomes a fait accompli our paramount concern and, indeed, the one overarching, guiding principle must be that the only parties to realize significant benefits from the FTA are the United States, Mexico and, if it so chooses, Canada. Every effort must be made to ensure that other countries, who will not be present at the bargaining table and who will make no contribution whatsoever to this alliance, do not end up receiving any of its benefits. As has been reported[2], there is already considerable interest by Asian manufacturers and traders in using the U.S./Mexico FTA as a "back door" into the United States market.

This must not be allowed to happen. The means to prevent it from happening are to incorporate into a U.S./Mexico FTA rules of origin insuring that only goods which are truly the product(s) of the two countries are traded in an FTA environment. This is necessary not only to ensure true reciprocity and fairness but also to guard against the very real possibility that unscrupulous traders both abroad and in the United States would use the FTA to transship textile and apparel products from third countries through Mexico into our market. The combination of duty and quota exemption for FTA-eligible imports is an irresistible incentive for such illegal practices.

Our concerns as to the injurious effects of a U.S./Mexico FTA on domestic firms and workers derives not only for the reasons cited above, but also from the disparity between U.S. and Mexican laws regarding workers' rights and benefits, workplace safety and environmental matters. For American firms these are very real costs of doing business which are largely absent from our Mexican competitors' costs. When combined with Mexico's extremely low wages -- only a fraction of American textile and apparel workers' wages -- they produce a truly unfair cost advantage for Mexico, one which all the modernization, efficiency and productivity which the domestic industry has achieved, cannot overcome.

There is by no means a unanimity of opinion in either the private sector or, it seems to us, the Congress as to the advisability of a United States-Mexico free trade agreement and there remains much, in the way of thorough study and tough negotiating, to be done. If and when the process is complete, Congress must, among other things, make sure that the agreement contains provisions which protect the interests of manufacturers in the United States. The lack of such provisions would be justification enough for our support of Congress' disapproval of the agreement.

[2] Journal of Commerce 1/16/91; EIU Country Report No. 3, 1990

STATEMENT OF AUGUST FELANDO, PRESIDENT
AMERICAN TUNABOAT ASSOCIATION

Introduction:

The American Tunaboat Association (ATA), organized in 1921, is a non-profit trade association formed and operating under the laws of the State of California. Its membership is comprised exclusively of persons who own and operate tuna purse seine vessels. Vessels of this type account for over 98 percent of those domestic tuna landings sold for processing into a canned product by U.S. Tuna Canners. This fleet fishes for those species of tuna that are canned with a label describing the tuna as "lightmeat". According to the United States International Trade Commission (USITC), shipments of "lightmeat" canned tuna accounted for 80 percent of the U.S. market in 1989. In 1989, the U.S. canners received 222,111 short tons of "lightmeat" tuna from the U.S. Fleet and 212,594 short tons from foreign fishermen. In addition, the U. S. Fleet exported 26,846 short tons to foreign tuna canners during such year. According to Government reports, the U.S. Canners received 189,044 short tons of "lighmeat" tuna from the U.S. Fleet and 127,649 short tons from foreign fishermen in 1990; exports of frozen tuna by the U.S. Fleet is unavailable.

U.S. Tuna Fleet Background:

At present, the U.S. Tuna Purse Seine Fleet operates exclusively on fishing grounds located in the Pacific Ocean. During the period 1957-1990, there were 270 vessels built or converted as tuna purse seiners for the U.S. Fleet. As a result of removals caused by sales to foreign citizens, losses at sea, and sales for use in other U.S. fisheries, the U. S. Tuna Purse Seine Fleet as of February 1, 1991 is composed of 59 vessels. Three of such vessels are idle because of financial difficulties.

Although the U.S. Tuna Purse Seine Fleet has declined in total number of job berths, vessels and carrying capacity, the fleet remains highly productive and competitive. Production per capacity ton has increased on the average from 2.5 per ton in 1985 to 3.5 per ton in 1989. Catch per vessel has increased on the average from 2,585 tons in 1985 to 3,936 tons in 1989. Nevertheless, job berths in the fleet have declined from a high of 2,176 in 1982 to about 1,060 in February 1991.

U.S. Tuna Canners Background:

Since 1985, this Subcommittee and the USITC has obtained much documentation concerning the trade of canned tuna in the United States. Such documentation clearly shows the substantial decline that has occurred in all segments of the U.S. Industry. In 1979, there were 22 U.S. Tuna Canners. They were located: Continental United States (14), Hawaii (1), Puerto Rico (5), and American Samoa (2). Today there are only 7 tuna canneries. They are located in Continental United States (2), Puerto Rico (3) and American Samoa (2). Only one tuna cannery services the fleet in Continental United States: Pan Pacific, San Pedro, California. Two of the five tuna canners in operation in January 1990 in Puerto Rico closed down after April 1990. All of the remaining tuna plants operating in Puerto Rico have reduced their operations.

The 1990 USITC Report states that employment at Pan Pacific's California plant "declined from 1,228 workers in 1984 to 525 workers in 1989", and that employment in Puerto Rico's tuna canneries declined from approximately 15,000 jobs in 1982 to 8,000 in 1989", and that as of "July 1990 the number employed by the canneries totaled approximately 6,600, a decline of 1,400 workers since 1989".

In 1988-89, Van Camp and its "Chicken of the Sea" brand of canned tuna was sold to an Indonesian company, and Bumble Bee was bought by a Thailand Company. Star Kist, Bumble Bee and Van Camp, the three largest tuna firms in the United States, accounted for about 80 percent of domestic production of canned tuna in 1989. In 1990, Van Camp closed operations in Puerto Rico, and

Bumble Bee substantially reduced its operation in Puerto Rico. Also in 1990, a loin plant in Santa Fe Springs, California was opened by Bumble Bee; such plant deals exclusively with imported products.

Free Trade in Canned Tuna from Mexico Opposed:

Our membership is convinced that unfair competition in the trade of canned tuna, assisted by unrealistic U.S. tariff levels and structure, will continue to cause the removal of cannery plants from United States and Puerto Rico. And in time, also American Samoa where tuna canning is the mainstay of the economy. Frozen tuna, the product produced by the U.S. Tuna Fleet already enters the U.S. market free of duties. Foreign tuna vessels can unload directly to the canners in American Samoa and for transshipment in Guam and the Commonwealth of the Northern Marianas. Foreign tuna fishermen already enjoy substantial trade advantages in the U.S. market. It is the U.S. Tuna Canner that has been directly harmed by low cost imports of canned tuna in water, and therefore, indirectly, the U.S. Tuna Fleet. This is why we are concered about the impact of a Free Trade Agreement with Mexico concerning the trade of canned tuna.

During the period 1982-1984, the three major tuna canners, Star Kist, Van Camp and Bumble Bee closed their canneries in California and Hawaii. According to a Sea Grant Study published in August, 1985, over 12,500 jobs were lost as a result of such closures. Now, we are witnessing closures of tuna canneries in Puerto Rico, and possibly the closure of the single remaining cannery in continental United States that services the U.S. Tuna Fleet. The U.S. Canned Tuna Industry, particularly those segments located in Califonia and Puerto Rico, have reason to be concerned about their economic survival. We are convinced that without U.S. Tuna Canners located in the United States, Puerto Rico and American Samoa, the competitive ability of the U.S. Tuna Fleet to effectively compete in the international trade of frozen tuna will be substantially destroyed. The U.S. Tuna Fleet must have the option of selling frozen tuna to both domestic and foreign tuna canners in order to enjoy healthy competition. We believe that jeopardy to the domestic tuna canners means jeopardy to the U.S. Tuna Purse Seine Fleet. We believe, therefore, that the present economic condition of the U.S.Canned Tuna Industry could not withstand free trade of canned tuna products from Mexico. Nor do we believe that such free trade of canned tuna would be of long-term benefit to the U.S. consumer. It can be demonstrated that once the consumer of canned tuna is dependent upon foreign caught and foreign processed canned tuna, prices of canned tuna rise significantly.

The Mexican Tuna Industry - Growing and Competitive:

The 1990 USITC Report provides data explaining the growth of the Mexican Tuna Industry during the period 1980-1990. It has the largest tuna fleet operating in the eastern tropical Pacific. According to the USITC, "there were 19 Mexican canneries in operation during 1988 that were equipped to can tuna". The Inter-American Tropical Tuna Commission (IATTC) reported that in 1990 that the Mexican Tuna Fleet of about 86 vessels produced 145,789 short tons of tuna and bonito. This represented 37% of the total catch of the international fleet operating in the eastern Pacific. The USITC 1990 Report states that the Mexican consumption of frozen tuna was 70,962 short tons in 1989. Mexican industry leaders, testifying during conferences sponsored by the IATTC, reported that the Mexican consumption of tuna has currently reached about 90,000 tons annually. The USITC reports that Mexican exports of frozen tuna increased from 32,039 short tons in 1985 to 92,594 tons in 1989, and that Italian Tuna Canners have been the major market during such period for such frozen products.

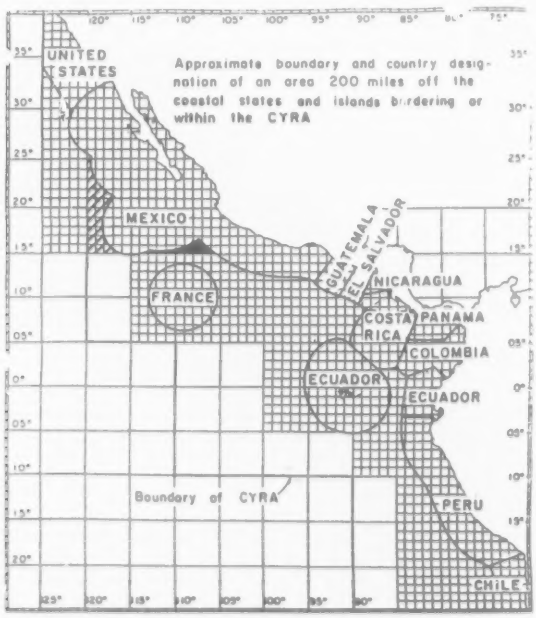
Mexico's 200-mile Exclusive Economic Zone (EEZ) a New Trade Barrier:

The product known today as canned tuna was developed in

California in 1903. Since 1919, the tuna fleet of the United States has developed fishing grounds south of San Diego, California. The eastern tropical Pacific Ocean, that is, an ocean area from California to Chile, produces over 20 percent of the World's production of tuna. This rich tuna fishing area accounts for over 30 percent of the World's production of yellowfin tuna. The U.S. Tuna Industry and the U.S. Government have made enormous investments in the conservation of the tropical tunas of the eastern tropical Pacific since 1950. In 1949, the U.S. and Costa Rica signed a convention that created the Inter-American Tropical Tuna Commission (IATTC). This organization is recognized as the first and most important tuna conservation Commission in the World. For over 70 years the eastern Pacific has been the most important source of yellowfin tuna to the U.S. Tuna Fleet, the U.S. Tuna Canners, and finally, to the U.S. canned tuna consumer.

During the period 1980-88, an average of 70,788 short tons of yellowfin and skipjack tunas was annually caught within the 200 mile zone of Mexico. The total catch of tunas during such period and within such zone represented about 42 percent of all yellowfin and skipjack tunas caught within all of the 200 mile zones located from the U.S. and Chile.

Attached is a Chart prepared by the IATTC. It shows that 56% percent of all tuna landed by the international feet fishing in the eastern tropical Pacific is caught within the 200 mile zones bordering the Pacific from the U.S. to Chile. The percentages are based upon IATTC reports. At the present time, no Treaty exists in the eastern tropical Pacific that would establish a regional license arrangement that would allow U.S. vessels to fish within the 200-mile EEZ of Mexico. Mexico does not issue tuna fishing licenses to U.S. tuna purse seine vessels operating in the eastern Pacific. No bilateral licensing arrangement exists between the U.S. and Mexico concerning such fishing.



Average Annual Percentages of Catch of Tuna captured within 200 miles of coastlines and islands bordering the Eastern Tropical Pacific Ocean 1976-1988

TOTAL TUNA CATCH.....56%
PERCENT TOTAL YELLOWFIN TUNA CATCH...52%
PERCENT TOTAL SKIPJACK TUNA CATCH....69%

The 1990 USITC Report refers to the issue of the 200 mile limit and tuna management. On page 1-3, the Report stated:

> "The United States does not include tuna under unilateral jurisdiction within its 200-mile fishery conservation zone, nor does it recognize such claims by other nations. The reason for this is that tuna are highly migratory, and it is therefore the U.S. position that no one nation has the ability to effectively manage tuna resources. Instead, the U.S. position historically has been that multilateral management, coordinated with all nations adjacent to a tuna stock's migratory area, is the best means to manage tuna fisheries."

While the 1990 USITC. Report was being published, President Bush on November 28, 1990, signed H.R. 2061, a bill that authorized appropriations and amended the Magnuson Fishery Conservation and Management Act (MFCMA). At such signing, President Bush made the following statement:

> "Current law defines "highly migratory species to mean only species of tuna and excludes such species from the exclusive fishery management authority asserted by the United States in our EEZ. H.R. 2061 would eliminate this exclusion effective January 1, 1992. Thus, effective as of that date, the United States will assert management authority over tuna in its EEZ. As a matter of international law, effective immediately the United States will recognize similiar assertions by coastal nations regarding their exclusive economic zones. (emphasis added)

The net effect of this Statement is to dejure push the United States Tuna Fleet away from the exclusive economic zones off the Pacific coasts of Latin America from Mexico to Chile. We consider the existence of such 200 mile zones to be a tuna trade barrier, when no multilateral agreements allow regional tuna fishing licenses and regional tuna conservation measures.

Contrary to the 1990 USITC Report (page 1-3), the United States has not successfully negotiated multilateral tuna agreements among Latin American nations. A bilateral albacore tuna treaty applicable to fishing off the Pacific coast of the United States and Canada does exist. This Treaty allows fishing for albacore tuna on a reciprocal basis by both U.S. and Canadian tuna fishing vessels, free of any fishing license charges. It also allows vessels of both countries to enter certain ports of both nations for purposes of provisioning and unloading. This Treaty is similar in its provisions regarding port usage to the Halibut Treaty also in existence between the U.S. and Canada.

CONCLUSION:

The negotiation of a Free Trade Agreement with Mexico on the issue of tuna trade must not be a one-way street for the benefit of Mexico only. Reciprocity should be an essential element in any such agreement affecting the trade of tuna. To allow free trade for Mexican canned tuna in the U.S. marketplace and not obtain for the U.S. Tuna Fleet access to fishing grounds within the Mexican 200-mile exclusive economic zone as well as access to Mexican ports for provisioning and unloading would benefit Mexico only. We strongly urge that such discriminatory result should not be allowed in any negotiation of a Free Trade Agreement between the U.S. and Mexico.

COMMITTEE ON WAYS AND MEANS
SUBCOMMITTEE ON TRADE

HEARING ON PROPOSED NEGOTIATION OF FREE TRADE AGREEMENT WITH MEXICO

February 11, 1991

WRITTEN STATEMENT ON BEHALF OF THE AMERICAN WIRE PRODUCERS ASSOCIATION

On behalf of the American Wire Producers Association, I respectfully submit our views on the proposed negotiation of a free trade agreement with Mexico.

The American Wire Producers Association is a national trade organization which represents American manufacturers of carbon, alloy, and stainless steel wire and wire products. Our membership also includes integrated and mini-mill producers of steel wire rod, wire drawers related to domestic rod producers, wire drawers related to foreign steel companies, and suppliers of machinery and other equipment to our industry. Member companies of the Association operate more than 110 plants in 27 states, and they employ over 20,000 American workers. Our members are efficient producers with modern facilities and a productive labor force. They supply more than 70 percent of the domestic market for steel wire and wire products, including round and flat wire, barbed wire, threaded bars, welded wire fabric, wire rope and strand, nails, staples, chain, coat hangers, concrete reinforcing mesh, and chain link fence.

The Association endorses the promotion of the free and fair exchange of goods between the United States and all of our trading partners, including Mexico. However, the Association is concerned that this goal may be undermined by certain imbalances in current trade relations between the United States and Mexico. We respectfully urge that these imbalances be redressed as part of the proposed negotiations between the governments of the United States and Mexico on a free trade agreement.

First, Mexico imposes a much higher level of duty rates on imported wire and wire products than does the United States. The Mexican rates are generally between 10.0 and 15.0 percent ad valorem, whereas the corresponding American rates are between 0.0 and 5.6 percent. These differentials are significant to an industry whose markets are extremely sensitive to even small variations in price.

Second, Mexican authorities impose a number of additional fees and charges with respect to the importation of steel wire and wire products. Mexico assesses a customs service fee in the amount of 0.6 percent, compared with the United States customs user fee of .22 percent. Our members also understand that Mexican authorities assess municipal taxes and a federal value added tax on imported products. These taxes further distort the price differential between Mexican and American products.

Third, our members are concerned that the Mexican industry may be targeting American markets for higher-valued wire and wire products, including mattress spring units, galvanized wire, poultry and stucco netting, and other woven and welded wire products. It is noted that the original voluntary restraint arrangement on steel products was amended in order to contain the surge of fencing and mesh products from Mexico, including steel fence panels, steel wire fabric, and welded wire mesh for concrete reinforcement.

Fourth, our members urge that the United States Government review the programs which Mexican federal, state and local authorities make available to Mexican manufacturers and

exporters of steel wire and wire products. The continued existence of such programs confers an unfair advantage on the Mexican industry, which compounds the effect of Mexico's extremely low wage rates.

The Association is grateful to the Chairman and the other members of the Subcommittee for their consideration of these comments.

Respectfully submitted,

Robert T. Chancler

Robert T. Chancler
Managing Director
American Wire Producers
Association
Suite 700
1101 Connecticut Avenue, NW
Washington, DC 20036
Telephone: (202) 857-1155

ARISTECH

David F. Tuthill

February 25, 1991

BY HAND

Robert J. Leonard, Chief Counsel
Committee on Ways and Means
U. S. House of Representatives
Room 1102, Longworth House Office Building
Washington, D.C. 20515

Re: Proposed Negotiation of Free Trade Agreement with Mexico

Dear Mr. Leonard:

These comments are submitted on behalf of Aristech Chemical Corporation ("Aristech"), a major U.S. producer of such petrochemicals as phenol.[1] Aristech's Haverhill, Ohio phenol production facilities alone employ over 250 workers.

If the United States enters into any negotiations with Mexico on a possible free trade agreement ("FTA"), Aristech respectfully submits that the following factors should be considered, which apply not only to the petrochemical phenol in particular, but often apply to the petrochemicals sector in general.

One, the U.S. phenol industry is especially vulnerable to injury from low-priced imports (i.e., Mexican) since:

(a) phenol is a homogeneous, commodity product, with supplier competition focused largely on price;

(b) phenol demand is highly cyclical, rendering the U.S. industry especially vulnerable to injury during an economic downturn. Given the lamentable shape of phenol's two derivative markets (housing and automobiles) and U.S.

1. Phenol is a chemical intermediate used in the manufacture of plywood, solvents, and other products; it is classified under Harmonized Tariff System item number 2907.11.00.

ARISTECH

recession concerns, this factor is particularly significant now.[2]; and,

(c) over the long-term, the industry has suffered significant unprofitability and overcapacity.

These are the classic indicia considered by the U.S. International Trade Commission ("the Commission") in its fair and unfair trade investigations to determine if a particular U.S. industry is especially susceptible to injury from imports. During this period of particular sensitivity, Mexican producers candidly admit that elimination of U.S. tariffs on secondary petrochemicals (e.g., phenol)[3] would likely increase Mexican exports perhaps by as much as 100 percent.[4] Given this import-sensitivity, any U.S. tariff reductions on phenol under a U.S.-Mexico FTA should be phased-in gradually (just as was provided for under the U.S. - Canada FTA).

Two, for petrochemicals generally, and phenol in particular, free and fair trade between Mexico and the United States requires the elimination of certain trade-distortive practices of the Mexican government. As prior Commission investigations[4] have found, the Mexican petrochemical industry, which includes phenol, enjoys significant advantages from

(a) low feedstock prices (often targeted at 80% of world price) from the state-owned PEMEX; and,

(b) long established, preferential government loan, grant and tax policies favoring the industry.

Any FTA should eliminate such trade distortive policies.

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2. U.S. demand for phenol is contracting because of the downturn in the economy, particularly the housing and automotive industries. Chem. Mark. Rep. Vol. 238, Issue 6, pp. 3, 23 (Aug. 6, 1990).

3. Review of Trade and Investment Liberalization Measures By Mexico and Prospects for Future United States - Mexican Relations, Inv. No. 332-282, USITC Pub. No. 2326 (October 1990) p. 2-17.

4. U. S. Global Competitiveness; Building Block Petrochemicals and Completed Implications for Construction, Automobiles, and Other Major Consuming Industries, Inv. No. 332-230, USITC Pub. No. 2005 (August 1987).

ARISTECH

Three, Aristech understands that Mexico proposes "relative reciprocity" under an FTA whereby Mexican tariffs on U.S. product would be reduced at a lower rate than U.S. tariffs on Mexican product. At least for petrochemicals, Mexican producers do not need such preferential treatment. As the Commission has found in prior investigations (e.g., Inv. No. 332-230), Mexican petrochemicals benefit from world-scale plants, state-of-the-art process technology used internationally, and the fact that Mexico is a major player in the global petrochemical industry. Not only is it unwarranted, such relative reciprocity is unfair to the U.S. producers, as far as providing them access to the Mexican market comparable to that provided Mexican producers to the U.S. market.

Finally, four, Aristech understands that Mexico seeks to exclude environmental issues from the FTA negotiations. For U.S. chemical producers, environmental protection is a major cost item. Any negotiations towards an FTA facilitating trade between the United States and Mexico should cover environmental issues to avoid unequal treatment in any unified market.

Aristech appreciates the Committee's consideration of these views.

Respectfully submitted,

ARISTECH CHEMICAL CORPORATION

By DF Tuthill
D. F. Tuthill
General Counsel and Secretary

The Atchison, Topeka and Santa Fe Railway Company

1700 East Golf Road
Schaumburg, Illinois 60173-5860

February 26, 1991

The Honorable Dan Rostenkowski
Chairman
House Ways & Means Committee
Washington, D. C. 20515

Dear Mr. Chairman:

The Atchison, Topeka and Santa Fe Railway Company (Santa Fe) strongly supports the negotiation of a comprehensive free trade agreement between the United States and Mexico. In order to make this objective possible, the negotiations should proceed under fast-track authority.

The negotiations present a significant opportunity to promote increased rail and rail intermodal transportation between our two countries. Developing an efficient system of cross-border transportation will result in economic benefits for both the United States and Mexico. Issues that should be addressed in the negotiations include: border delays arising from lengthy customs procedures, rail car sanitation problems, harmonization of safety standards, and the expedited movement of containers and truck trailers carried by U. S. railroads.

In general, closer economic ties between the United States and Mexico are likely to benefit the overall commercial interest of the United States. The United States is already Mexico's largest trading partner and Mexico is our third largest. This important bilateral trade and investment relationship between our countries should be enhanced and strengthened. As Mexico continue to make fundamental economic reforms, the Mexican market will offer increased opportunities for U. S. exports, both goods and services.

As a member of The Business Roundtable, Santa Fe endorsed the Roundtable's February 6 letter of support for comprehensive U. S.-Mexico free trade and investment negotiations, which was signed by 443 corporations and associations.

Santa Fe looks forward to working with members of Congress, the U. S. negotiators and the U.S.-Mexico Transportation working group on this important initiative in the coming months.

Sincerely yours,

Michael R. Haverty

Michael R. Haverty
President and
Chief Operating Officer

STATEMENT OF
DAVID BEARDSLEY
BEARDSLEY FARMS

Mr. Chairman and members of the committee, thank you for the opportunity to submit a statement presenting one farmer's view on a proposed trade agreement with Mexico.

Mr. Chairman, my family has been farming sugarcane on the south shores of Lake Okeechobee in Florida for the last 75 years. We are a family farm operation and farm 1,000 acres in the Everglades Agricultural Area (EAA) which is very suitable for sugarcane production. We are proud to be farmers and want to continue in the business. The Florida sugar industry is important to me but also the economy of south Florida generating approximately **$1.6 BILLION** in economic activity and accounting for 26,000 jobs in south Florida. The sugar industry is Florida's third largest agricultural industry.

We become very concerned, however, when we hear about trade initiatives which have the potential of destroying our industry and a way of life.

Products are grown in some countries to keep people busy. It is also true that some products are produced at the expense of the workers who are paid little and worked hard. If we had similar conditions, which thank heaven we don't, we could produce at a lower cost. We hope someday Mexican workers can enjoy comparable working conditions and compensation as their American counterparts.

As you know, Mr. Chairman, US sweetener prices are kept stable basically by an import quota. Mexico holds a quota of 8,030 short tons raw value. They sell that much sugar to the US at a premium price. They also participate in the US Sugar Reexport Program where raw sugar is refined in the US and reexported so as not to interfere with the successful operation of the US Sugar Program. Mexico currently benefits from the US Sugar Program.

Mexico is a net importer of sugar so any increase in the quota would mean they would have to purchase more sugar on the so-called "world market" to fulfill domestic consumption needs. While such a move might generate some activity, it may not be of great economic benefit to Mexico.

While the arrangement on sugar in the Canadian Free Trade Agreement has worked well because they produce little sugar and they agreed their shipments to the US to traditional levels. Mexico, on the other hand, is expected to produce 3.2 million tons of sugar this year. It is obvious that any arrangement to allow Mexico to ship large quantities of sugar into the US could destroy the US Sugar Program.

We are efficient sugar producers and can compete with producers anywhere in the world as long as there are consistent rules to abide by. However, in the quest to make things more equal, please don't sacrifice viable US interests just to get an agreement.

Mr. Chairman, as you know there is a lot of attention on environmental issues in Florida. Let me say that I too am concerned about the environment. Without good soil and water, I cannot grow good products. We are working with various coalitions and groups to improve the environment so we can keep our land in production.

Mr. Chairman, I know that there are those who would trade away my ability to produce sugarcane for concessions in other areas. For the 30 people who farm with me every day as well as the thousands of Floridians who live and work in our community, please exercise caution and don't jeopardize our livlihoods for the sake of a less than meaningful agreement with Mexico.

Leave sugar out of it.

Thank you.

STATEMENT OF KAY R. WHITMORE, CHAIRMAN, PRESIDENT, AND CHIEF EXECUTIVE OFFICER, EASTMAN KODAK CO. AND CHAIRMAN, THE BUSINESS ROUNDTABLE WORKING GROUP ON U.S.-MEXICO TRADE AND INVESTMENT

This testimony is submitted on behalf of The Business Roundtable, an association of Chief Executive Officers of 200 major U.S. corporations who examine public issues that affect the economy and develop positions which seek to reflect sound economic and social principles.

The Business Roundtable companies see important potential commercial benefits for the United States in negotiating a Free Trade Agreement with Mexico. But, we are not blind to the challenges that forging this agreement pose. We are aware that this is an unprecedented trade initiative by the United States. We have comparable agreements with Canada and Israel. But never have we endeavored to negotiate a Free Trade Agreement with a country at such a disparate stage of development.

I would like to review for the Committee the steps Roundtable companies have taken and will be taking to meet these challenges.

Our first step was to evaluate whether these negotiations would be in the overall commercial interest of the United States, and whether the United States should go forward. The result of our work was a policy statement released last June, entitled "Building a Comprehensive U.S.-Mexico Economic Relationship: Looking Towards the Future."

We concluded that comprehensive trade and investment negotiations between the United States and Mexico should be initiated. We outlined several objectives for these negotiations, including:

- Broad liberalization of trade in goods and services and investment between our two countries;
- Fostering policies that will enhance the competitiveness of both economies in world markets; and
- Ensuring that, to the extent consistent with the GATT, the benefits of an agreement accrue to the U.S. and Mexico.

We based our support for initiating the negotiations on the following five points:

• First, the bilateral trade and investment relationship already is very important to both our countries. We are by far Mexico's largest trading partner. More important, Mexico is our third largest. In 1989, U.S. exports to Mexico rose by 20 percent to over $24 billion. We are also Mexico's leading foreign investor, accounting for over 60 percent of its total foreign investment.

• Second, we see many important mutual benefits from closer economic ties, starting with strong commercial gains for the United States. Since this analysis is at the heart of our recommendation to initiate negotiations, I would like to elaborate on this point.

The Roundtable believes that Mexico can be an even more important market for U.S. exports than at present. We have already seen some preliminary indications of what partial trade liberalization can do. Between 1987-89, after Mexico joined the GATT and reduced tariffs, U.S. exports increased by over $10 billion, faster than to any other region in the world.

With economic growth and full liberalization, the Mexican market will offer significant opportunities for even greater exports of U.S. manufactured goods and services. By the year 2000, Mexico will have 100 million consumers. While today many Mexicans are poor, ten years from now Mexico can be a very different country. No where is it preordained that Mexico must stay at current levels of development.

As Mexico's economy grows, its citizens will have more disposable income, resulting in ever increasing demand for consumer goods. American companies are the logical source for those goods given Mexican proximity and familiarity with our products.

U.S. capital goods manufacturers as well as service industries should also benefit from increased exports to Mexico. After years of depressed investment, Mexico needs capital goods and services to rebuild and modernize its infrastructure. As Mexico's industries develop, they will require materials, components and services. Again, U.S. companies are the logical suppliers.

In addition to the direct benefit of a large and growing market for U.S. exports, we believe that bilateral trade and investment liberalization between the United States and Mexico will lead to new manufacturing and supply relationships which will enhance the competitiveness of U.S.-based production in world markets. Mexico is a logical partner for U.S. business in this regard.

Rather than viewing U.S. investment in Mexico in threatening terms, it should be seen as a positive development for the U.S. economy. Professor Rudiger Dornbusch, Ford Professor of International Economics of MIT, estimates that for every dollar of extra income

generated in Mexico, some 25 cents will be spent on U.S. products. Even if the estimate is high, the point remains that economic growth in Mexico generated by investment feeds back positively to the United States. Exports from the U.S. will rise as the result of the increased demand and that means more jobs at home.

• Third, Mexico has undertaken dramatic economic reforms. These reforms reflect a fundamental rethinking of the role of the state in the Mexican economy, and move Mexico towards becoming a modern, industrialized market-based economy. These reforms are the sine qua non for entering into negotiations. Roundtable companies would not have considered recommending that our government go forward without them. Further liberalization, however, is necessary and negotiating a Free Trade Agreement offers the best opportunity to achieve substantial additional progress.

• Fourth, with these reforms, we sensed a fundamental rethinking of Mexican attitudes towards the United States. Much of the Mexican private sector, as well as the government, view their futures tied to North America and see closer cooperation as an advantage, rather than something to fear. In fact, in our contacts with the Mexican leadership and the private sector we have directly experienced their desire for closer cooperation. Again, were it not for this new attitude, the Roundtable would not have endorsed entering into these negotiations.

• Finally, The Business Roundtable companies determined that the existing piecemeal framework of bilateral agreements did not go far enough, when the objective is the broad expansion of market opportunities on both sides of the border.

Our second step was to set forth our negotiating objectives. We have devoted substantial resources and time to this effort and are now in the process of finalizing a detailed paper which sets forth our objectives. It is our intention to share our specific objectives with the Administration and the Congress as soon as they are completed.

I would, however, like to highlight for the Committee some of the key issues addressed in this paper:

-- With respect to trade in goods, we seek:
  - Elimination of tariffs and non-tariff barriers;
  - A common rule of origin designed to facilitate bilateral trade and prevent Mexico from becoming a back door point of entry into the U.S. market for third countries;
  - Equal access to energy markets.

-- With respect to services, we seek:
  - Removal of barriers to market access, including barriers to cross border provision of services and establishment of a commercial presence;
  - National treatment and equal competitive opportunity.
-- With respect to investment, we seek:
  - National treatment and the elimination of performance requirements and restrictions on investments.
-- With respect to Intellectual Property Rights, we seek:
  - Adequate and effective protection for patents, trademarks, copyrights, trade secrets, and lay-out designs for integrated circuits;
  - Transition protection for products not currently protected under Mexico law;

With respect to unfair trade laws, Roundtable companies are firm that there should be no changes in current U.S. law or any special waiver for Mexico, as was the case with Canada. If Mexico improves the standards, administration and judicial review of its anti-dumping laws-- and we would hope that this would be part of the agreement--the establishment of a binational panel along the lines of the U.S.-Canada agreement should be considered.

Finally, we recognize that both Mexico and the United States may find it necessary to take reservations in certain sensitive sectors. We hope that these can be kept to a minimum and that they will be limited in duration to a specified time.

Recently, the President announced that Canada is going to be part of the negotiations. Obviously, the Roundtable will have to revise its objectives to take account of the fact that these will be a trilateral, not bilateral talks. There may well be areas of the U.S.-Canada Free Trade Agreement where Roundtable companies may seek improvements, such as investment, Intellectual Property Rights and services. Certainly, we do not believe that the U.S.-Canada Accord should limit the scope of negotiations with Mexico.

We are also carefully evaluating the various economic studies which are currently underway to gauge the economic, sectoral and regional impacts of the proposed Free Trade Agreement.

Roundtable companies intend to consult extensively with the Administration and the Congress on an on-going basis throughout the negotiating process. We believe that on-going intensive consultations

are necessary to deal with the many complex and difficult issues which will arise in the context of these negotiations.

There is, however, an important first step which must be taken before the negotiations can get underway: that is maintenance of fast track procedures. This Committee devised the fast track procedures in the Trade Act of 1974 to assure that international trade agreements will be considered by the Congress within a definite timeframe. We believe that maintenance of fast track procedures is essential to negotiate a comprehensive agreement with Mexico that is in the best interests of the United States.

To underscore the importance of maintaining fast track procedures, The Business Roundtable in conjunction with all the other major business associations-- The Chamber of Commerce, The Emergency Committee for American Trade, The National Association of Manufacturers, The National Foreign Trade Council, The U.S. Council for International Business, and the U.S. Council of the U.S.-Mexico Business Committee-- have joined together in support of fast track for the Mexico negotiations. Every member of Congress has received a letter signed by these and 436 other associations, and individual companies. The letter demonstrates that support among American business is broad, diverse and deep.

I would like to summarize this group's key points. First, the letter supports the initiative to negotiate a comprehensive trade and investment agreement. Second, we all believe that maintenance of fast track procedures is necessary to give these negotiations every chance to succeed. Third, and this is a critical point, support of fast track procedures is not a blank check. It does not guarantee the support of this group for the final agreement. To the contrary, business will only support an agreement that is in the U.S. commercial interest. Anything less will be opposed.

We intend to work very hard to make sure that fast track procedures are maintained. Beyond fast track, as outlined above, our strategy is to work very closely with Congress and the Administration to make sure that this is a good agreement. If at the end of that day, the analysis shows that it is indeed a good agreement in the commercial interest of the U.S., we will work to ensure its implementation.

Speaking for myself, I should like to add a personal note. In the late 1960s, I helped to establish Kodak's manufacturing operations in Guadalajara, Mexico. Not only was this a very satisfying time for me

personally, but as a businessman as well. By establishing a photographic manufacturing operation in Mexico, not only did we create jobs in Mexico, but also for Kodak in Rochester, which exports raw materials and finished goods to this plant and the Mexican market. I have watched this relationship grow over the years to the mutual benefit of both.

Kodak's positive experience, which no doubt is similar to scores of other American companies, makes me confident that negotiating a good Free Trade Agreement with Mexico will be positive for the United States.

Thank you.

BEFORE THE
SUBCOMMITTEE ON TRADE
COMMITTEE ON WAYS AND MEANS,
U.S. HOUSE OF REPRESENTATIVES

THE PROPOSED NEGOTIATION OF A
FREE TRADE AGREEMENT WITH MEXICO

STATEMENT OF THE CALIFORNIA AVOCADO COMMISSION

This statement is submitted on behalf of the California Avocado Commission (the "Commission") pursuant to the Subcommittee on Trade's ("Subcommittee's") January 30, 1991 press release announcing a public hearing on the proposed negotiation of a free trade agreement with Mexico.

The Commission submitted comments to this Subcommittee in July, 1990, in connection with the Subcommittee's hearing on U.S.-Mexico economic relations. The comments submitted today present additional information with respect to a U.S.-Mexico free trade agreement, which has developed since July. Specifically, three new areas are addressed: (1) the U.S. Department of Agriculture's response to a protocol proposed by the Mexican government for control of seedweevil infestation in the Mexican avocado crop; (2) the confiscation of illegal seedweevil infested Mexican avocados at the U.S. border; and (3) the ITC's February 1991 report on a U.S.-Mexico free trade agreement. The following comments should be read as supplemental to the Commission's earlier comments.

The Commission is organized under the laws of the state of California and represents all 6,000 avocado growers in the state of California. It is broadly responsible for increasing grower returns by conducting advertising, promotion and public relations for California avocados and engaging in industry-related activities that help create a more profitable marketing environment for California avocados. As part of this responsibility, the Commission works actively with the U.S. government on a range of trade policy concerns, including close involvement in U.S. bilateral and multilateral efforts relating to agriculture.

I. Mexican Protocol On Avocados

In August, 1990, the Mexican government's plant-health division, Sanidad Vegetal, submitted for review to the Animal and Plant Health Inspection Service ("APHIS") of the U.S. Department of Agriculture ("USDA") a protocol entitled "Work Plan to Produce Avocados of the Best Quality". The purpose of the protocol was to convince APHIS to revise and moderate its quarantine on the import of fresh avocados from Mexico. Mexican fresh avocados have been banned from the United States since 1914 because of a number of plant pests, including the seedweevil, which attacks Mexican avocados, but do not occur in the United States. The seedweevil is a pest that can quickly spread within an infested crop and which destroys the fruit of the avocado. Seedweevil infestation of the U.S. crop would be devastating to the U.S. avocado industry because there is no

known way to kill the pest in the seed with the tools available without also killing the fruit. The only known way to control the pest is to prevent exposure of crops to infestation.

APHIS responded to the Mexican government's protocol in a letter dated October 1, 1990 and signed by Alejandro B. Thiermann, Deputy Administrator for International Services. That letter said that the Mexican document was inadequate and did not provide adequate justification for a lifting of the U.S. phytosanitary ban on fresh Mexican avocados. The APHIS response noted that "a number of plant pests that are known to attack avocados in Mexico, but do not occur in the United States or have very limited distribution here" make it impossible for Mexico to ship fresh avocados to the United States. The response further stated that "at present, there are not acceptable treatments available that would eliminate these injurious pests without damaging the avocados or leaving unacceptable pesticide residues." APHIS's response also points out that "the work plan [protocol] fails to adequately address the real plant quarantine problem with Mexican avocados, which is the [presence of] exotic pests." The letter states that "data has not been presented to APHIS which shows conclusively that these insects do not occur in Michoacan, or that there is any area of Michoacan that APHIS could consider as an adequate area or district that is free from these injurious pests as required by our regulations (C.F.R. 319.56-2)." APHIS points out that it considers "additional documentation to be absolutely essential" before consideration can be given to allow entry of avocados into the United States from Mexico.

As of this writing, APHIS has yet to receive any further written communication from Mexico with respect to a new or amended Protocol.

It is imperative that this Committee understand that a relaxation of the import ban on Mexican fresh avocados can not be a part of any trade negotiations until such time, if ever, it is conclusively demonstrated that fresh avocados from Mexico can be imported without the risk of exposing U.S. production to seedweevils and other exotic pests.

II. Seizure of Smuggled Fresh Avocados From Mexico

Because of the sensitivity of illegal Mexican avocados entering the United States, APHIS Plant Protection Quarantine ("PPQ") personnel have taken added measures to detect Mexican avocados that are transhipped through Canada or which are illegally being smuggled into the United States.

On September 24, 1990 Mexican avocados infested with seedweevils were confiscated by PPQ officials in El Paso, Texas after the fruit had been smuggled into the United States across the Rio Grande River. This incident verifies two important facts. First, that Mexican fresh avocados continue to be infested with the seedweevil pest, and second, that the smuggling problem and the threat that U.S. production will be accidentally exposed to the seedweevil, is a real and threatening problem that must be effectively and immediately addressed.

III. ITC Report on a U.S.-Mexico FTA

On February 1, 1991, the U.S. International Trade Commission ("ITC") finalized a report jointly requested by the House Committee on Ways and Means and the Senate Finance Committee on the economic impact of a U.S.-Mexico Free Trade Agreement ("FTA"). That report identifies fresh fruits and vegetables as one area where U.S. growers may be particularly vulnerable to low-priced Mexican exports. (page 4-3).

The California avocado industry agrees with the ITC report in that U.S. horticulture will be vulnerable to increased imports from Mexico if duty-free access is extended. However, the industry is concerned with the Report's discussion on phytosanitary issues and avocados in particular. The ITC report incorrectly comingles concerns over phytosanitary restrictions with tariff barriers and marketing orders (page 4-8). Phytosanitary restrictions are based on documented scientific evidence. They are not trade policy concerns and should not be bargained away for any trade concession. Phytosanitary concerns should be reviewed separate and apart from trade policy issues in the free trade negotiations.

IV. Conclusion

As the above statements indicate, seedweevil infestation of Mexican fresh avocados continues to be a real and threatening problem. The Mexican government continues to make clear to U.S. negotiators that their intent is in one-way trade liberalization, including the elimination of sanitary and phytosanitary standards that allegedly have been used as a disguise for unwarranted protection. We urge this Committee to send the message to our negotiators that the U.S. ban on Mexican fresh avocados is scientifically justified and should not be compromised in the free trade talks.

Respectfully submitted,

Mark Affleck
President
California Avocado Commission

February 25, 1991

2283p

BEFORE THE
SUBCOMMITTEE ON TRADE
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

THE PROPOSED NEGOTIATION OF A
FREE TRADE AGREEMENT WITH MEXICO

WRITTEN STATEMENT OF THE
CALIFORNIA CLING PEACH ADVISORY BOARD

The California Cling Peach Advisory Board (the "Board") submits the following comments in response to the Subcommittee on Trade's ("Subcommittee's) January 30, 1991 press release announcing a public hearing to be held on the proposed negotiation of a free trade agreement with Mexico. The Board requests that these comments be made a part of the formal written record of the hearing.

The Board is organized under the California Marketing Act of 1937 and operates under the authority of the California State Director of Food and Agriculture. It represents all 750 producers and 9 processors of cling peaches in the state of California. California is responsible for virtually all of the nation's cling peach production. Much of the Board's work is targeted towards promoting the sale of California cling peach products, both at home and abroad. In this capacity, the Board represents the interests of California cling peach growers and processors on issues relating to bilateral and multilateral trade.

If properly structured, a free trade agreement with Mexico offers the possibility of new and expanded opportunities for U.S. cling peach growers and processors. Care must be taken to address Mexico's licensing practices on peaches and other fresh horticultural products, and to develop narrowly defined country of origin rules and effective border enforcement. The potential benefits to the U.S. cling peach industry and the industry's concerns are discussed in detail below.

I. A Free Trade Agreement Would Result In New and Expanded Market Opportunities for Both Fresh and Processed U.S. Cling Peaches.

For California cling peach growers and processors a free trade agreement with Mexico means trading U.S. tariff protection on canned peaches (17%), fruit mixtures (17.5%) and frozen peaches (17%) for an elimination of Mexico's 20 percent tariff on identical items, permanent elimination of Mexico's licensing practices on fresh peaches, and reform of Mexican laws that prevent open investment in farming and processing facilities. This trade-off offers opportunities to expand sales of California cling peaches to Mexico provided expanded and equal access on both tariff and non-tariff barriers is achieved under the agreement.

A. The Mexican Cling Peach Industry Must Rely on Imports to Fully Satisfy Domestic Demand.

Although Mexico is a cling peach producing and processing nation, in recent years Mexican peach canners have had to supplement their domestic production by importing both finished and raw product in order to meet domestic demand. Mexico imports some 300,000 to 400,000 cases of finished canned peaches and several thousand metric tons of raw produce per year. Imports are sourced from Argentina, Spain, Greece and California. Duty-free access for U.S. product would give U.S. cling peach exports a price advantage over competition from other foreign suppliers in the Mexican market.

Historically, California exports have accounted for a relatively small portion of Mexico's cling peach import market. During the past marketing year (1989/90), U.S. processors exported 81,000 cases of canned peaches to Mexico, 30,000 cases of fruit cocktail, and between 2,000 to 4,000 metric tons of raw produce for juice and canning purposes. California peach products are sold predominately to large supermarket chains in Mexico City that feature Del Monte, S&W and Hunt-Wesson peaches from California. These brands sell at prices higher than comparable U.S. retail prices, a function in part of the 20% Mexican tariff and 15% value added tax. Tariff elimination would bring the price of U.S. product down helping it compete with subsidized imports from Greece and Spain. This is conditional, however, on the fact that other restrictive practices, such as import licensing, are eliminated.

The probability that Mexico will increase its own peach production and processing capabilities thus limiting U.S. opportunities is unlikely given restrictions placed on the industry by the Mexican government. Selling prices for Mexican-grown canned peaches are regulated by the government. Imported canned fruit is exempt from these price controls and can be sold on the open market at its fair market value. The selling price scheme exercised by the government has effectively prevented any new domestic processing entities from entering the peach canning business during the past several years. The Mexican canning industry is currently limited to one relatively large canner and approximately six smaller canners.

Peach production in Mexico is also small. Production is limited primarily by Mexico's lack of irrigation facilities that are insufficient to overcome the regular droughts experienced in the prime peach producing areas. Historically, a drought occurs about four out of every ten years. More than half of the largest peach producing sector, the Zacatecas area, is not under irrigation. Cultural and farming practices (i.e. limited or no thinning of the peach orchards) and Mexican government restrictions on land ownership also restrict production.

Industry sources estimate current Mexican annual peach production at 28,000 to 36,000 tons. The bulk of the production comes from the Zacatecas area (15,000 to 20,000 tons) and the Aguascalientes area (10,000 to 12,000 tons) with minimal production in the Chihuahua area (3,000 to 4,000 tons). The majority of canning peaches come from Chihuahua and Aguascalientes. Zacatecas peaches are used primarily for the fresh (large sizes) and the juice and concentrate (small sizes) markets. By comparison, California annual cling peach production is in excess of 350,000 metric tons, with most of the production going for canning purposes.

B. **The U.S. Industry Supports Immediate Elimination of Mexico's Tariffs and Non-Tariff Barriers on Cling Peach Items and the Elimination of Restrictions on Foreign Investment in Mexican Agricultural Land and Processing Plants.**

The California industry supports immediate elimination of the Mexican tariffs on canned peaches, H.S. 2008.70.00 (20%); frozen peaches, H.S. 0811.90.60.80 (20%); and canned fruit cocktail and mixtures, H.S. 2008.92.90.20 (20%). The faster duty-free access is achieved, the sooner U.S. product can be more competitive price-wise vis-a-vis other foreign suppliers. Liberalization must also include an elimination of Mexican import license restrictions on U.S. exports of fresh peaches, which have been a problem in the past, and reformed Mexican laws that restrict foreign investment in Mexican farm land and processing facilities.

Although fresh peaches are now allowed entry into Mexico, in the past, the government has used the licensing requirement to restrict and even prevent access for U.S. fresh cling peaches. The Mexican government's policy of restricting imports through licensing requirements when needed to protect the domestic industry is unwarranted given the limited peach production in that country.

The U.S. industry is prepared to give up its tariff protection on comparable Mexican exports on an immediate basis only if tariffs and other access barriers inhibiting U.S. exports to Mexico are lifted on a reciprocal basis.

II. **Country of Origin Rules Must be Developed To Prevent the Possibility that Transhipments of Peach Products Through Mexico to the U.S. Market do not Receive Tariff Benefits Granted to Mexican Exports.**

The U.S. industry anticipates that a free trade agreement will mean that some fruit canned in Mexico will enter the U.S. market. U.S. peach growers believe that duty-free access for U.S. fresh peaches will encourage Mexican processors to supplement their domestic production from U.S. sources rather than from subsidized foreign production. The more fresh product sourced from the United States, the greater the likelihood that canned peaches from Mexico entering the United States will be produced from either Mexican or U.S. grown peaches.

Of great concern to the California industry is the possibility that finished cling peach products shipped to Mexico by foreign suppliers will be transhipped through Mexico to U.S. markets in an effort to avoid the U.S. duty. It is important that strict country of origin provisions be included in the free trade agreement to require Mexican and U.S. Customs personnel to account for and prevent such transhipments.

III. Conclusion

A free trade agreement with Mexico will pose both new opportunities and new problems for California cling peach growers and processors. The U.S. industry is optimistic that it can develop flexible and innovative ways to sell more fresh and processed cling peaches to Mexico. Duty-free access for fresh and processed peaches, unrestrained access for fresh peaches and opportunities for U.S. growers and processors to invest in Mexican farms and processing facilities will give the California industry the advantages it needs to compete against low-cost foreign suppliers for the Mexican import market. Furthermore, to prevent transhipments of foreign product through Mexico for export to the United States, the upcoming agreement must include narrowly drawn country of origin rules and aggressive enforcement at the border.

The California Cling Peach Advisory Board asks that the House Ways and Means Committee give priority to the above addressed concerns in making decisions on granting fast-track authority and in the negotiations of a free trade agreement with Mexico.

Respectfully submitted,

Thomas P. Krugman

Thomas P. Krugman
General Manager
California Cling Peach Advisory Board

February 25, 1990

2293p

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Before the

UNITED STATES CONGRESS
HOUSE OF REPRESENTATIVES

COMMITTEE ON WAYS AND MEANS
SUBCOMMITTEE ON TRADE

Submission of Leslie Alan Glick
Porter, Wright, Morris & Arthur
Legal Counsel to
Cámara Nacional de la Industria
de la Construcción (CNIC)
(Mexican Chamber
of the Construction Industry)

February 28, 1991

Mr. Chairman and Members of the Committee:

My name is Leslie Alan Glick and I am submitting this testimony in my capacity as U.S. legal counsel to the Cámara Nacional de la Industria de la Construcción (CNIC), the Mexican Chamber of the Construction Industry. CNIC is a chamber of commerce with member companies in every state in Mexico and with approximate membership of 15,000 companies. CNIC has submitted its views on the proposed U.S./Canada/Mexico Free Trade Agreement to the Mexican Commerce Department (SECOFI) and has requested that the topic of trade in construction services be placed on the agenda for discussions in the upcoming trilateral negotiations. We recognize that trade in services has been an important concern of the United States in the GATT and in other bi-lateral agreements and the CNIC shares the belief in the importance in opening trade and investment in the service sector, and in particular in the construction sector, between the three countries.

At the same time, we believe that the U.S. and Canada must recognize and take into consideration the differences in development that exist between their two highly developed economies, and the Mexican economy that is still in a lesser advanced stage. Therefore, we do not believe that the existing agreement between the U.S. and Canada can or should be followed as an automatic model for the trilateral agreement being considered. The differences in economic development level in Mexico should be considered. Therefore, although it is the position of CNIC that barriers to trade and investment in construction and engineering services between the two countries must and should be eliminated, we believe the staging or phasing in of these changes must be different for the three countries, allowing the developing Mexican economy more time to adjust.

We do not believe that this should be a controversial or sensitive area for negotiations. The recent report of the International Trade Commission to Congress in its investigation No. 332-297 concluded that the impact on the U.S. industry would not be great, and that Mexican firms "lack the capacity and technology to significantly penetrate the U.S. market." See U.S. International Trade Commission report, "The Likely Impact on the United States of a Free Trade Agreement with Mexico, USITC, Pub. 2353 at 4-44.

Some of the issues of concern to the Mexican industry, in terms of greater access to the United States market include:

1. Non-discrimination and national treatment in bonding requirements.

2. Transparency and equal treatment in federal and state laws governing public construction contract bidding, licensing and registration of construction companies, architects and engineers.

3. Temporary immigration status for work crews and professional staff.

4. Free flow of construction equipment across the border without unnecessary customs or sanitary restrictions.

5. Application of small business and minority preferences to Mexican companies.

We look forward to the opportunity to work closely with your private sector in discussing these issues and their interests and concerns in regard to the Mexican market. The Mexican market is a potential source of significant opportunity for U.S. companies, although the economic situation in Mexico makes it important that U.S. companies bring with them new investment as well as new services.

G/1362

CATERPILLAR®

Caterpillar Inc.
100 NE Adams Street
Peoria, Illinois 61629

February 18, 1991

Mr. Robert J. Leonard, Chief Counsel
Committee on Ways and Means
U.S. House of Representatives
Room 1102, Longworth House Office Building
Washington, D.C. 20515

Dear Mr. Leonard:

This statement is submitted on behalf of Caterpillar Inc., one of the nation's largest exporters, in response to a January 30, 1991 request from the Ways and Means Subcommittee on Trade to analyze the implications of a U.S.-Mexico Free Trade Agreement (FTA).

Caterpillar is the world leader in the mining and construction equipment market and a major participant in the lift truck, diesel engine, and gas turbine engine markets. The company has 17 manufacturing plants in the United States which produce about 70 percent of the company's products. Most of Caterpillar's U.S. employment is concentrated in Illinois, Pennsylvania, California, Indiana, Mississippi, and Minnesota.

Caterpillar anticipates that it will be a prime beneficiary of a U.S.-Mexico FTA. This conclusion is based on: (1) the company's 60-year experience in Mexico, and (2) benefits that have already been derived from recent trade reforms enacted by President Salinas.

Background

From the 1930s through the early 1980s, Mexico was a significant export market for Caterpillar. During that period, Cat sales to Mexico far outpaced exports to countries of similar size (as measured by GDP). In 1962, as demand for equipment and service grew, Caterpillar established a modest, in-country manufacturing presence to produce and distribute parts.

During the sixties and seventies, Mexico offered incentives to encourage establishment of national industries. The government also used restrictive tariffs to protect infant Mexican manufacturers.

In 1982, to maintain market access -- which was being threatened by high tariffs -- Caterpillar established CONEK S.A. de C.V. Shortly thereafter, the market for construction equipment decreased drastically as infrastructure projects were cancelled in reaction to declining oil revenues, increasing debt burdens, and capital flight.

A bad situation was made worse, as Mexico increasingly relied on protectionist measures (e.g., import licensing) to insulate domestic industries from foreign competition. From 1983 through 1987, the market for construction equipment in Mexico nearly vanished. In fact, unit sales in Mexico for that entire five-year period were less than 22 percent of the 1981 sales figure.

Since 1987, the trade and business environment in Mexico has improved significantly. Caterpillar has been a direct beneficiary of President Salinas' commitment to unilaterally end import restrictions (the motor grader market opened in 1988 ... tariffs were reduced in 1988-89 ... the diesel engine market opened in 1990). Caterpillar has also benefited from increased demand generated by new infrastructure projects that are being financed by innovative methods (e.g., toll roads).

Although Cat sales have not yet reached levels attained in the late 1970s/early 1980s, the market has improved to a point where sales are proportional with similarly sized countries (as measured by GDP). In 1989, Caterpillar's U.S. exports to Mexico reached $68 million.

Caterpillar's overall competitiveness has been enhanced by its CONEK manufacturing facility located in Monterrey, Mexico. While many Japanese companies are developing Pacific Rim countries as sources for parts and components, Caterpillar has focused

on Latin America ... Mexico and Brazil. Today, Cat's 1300 CONEK employees produce rippers, bulldozer blades, electronics, fabricated components, and lift trucks.

Elements of a Free Trade Agreement

To be commercially meaningful, Caterpillar believes an FTA should include the following elements:

1. Duty free border. All tariff ... and non-tariff barriers should be eliminated. Tariff reductions should be made symmetrically over a reasonable time period. (Experience with the Canada FTA suggests that five years is the appropriate length of time.)

2. Rules of origin. The same "value added" rules that apply to the Canada FTA should be adopted.

3. Capital flows. The FTA should ensure a free flow of capital between the United States and Mexico. This should include the elimination of ownership restrictions.

4. Intellectual property. Both countries should not only protect trademarks and patents, but also copyrights, trade secrets, and industrial designs. Patent life should be 20 years from date of filing.

5. Government procurement. An agreement should ensure that government entities not discriminate against products that meet the "rules of origin" test.

6. Canadian participation. To minimize compliance and administration costs, the agreement should be consistent with the U.S.-Canada FTA. Consequently, Caterpillar believes FTA negotiations should include Canada.

Benefits of a Free Trade Agreement

The most obvious benefit of an FTA is that all tariffs between the United States and Mexico would be gradually eliminated. For many Cat-type products, Mexican tariffs are 15 to 20 percent, while corresponding U.S. tariff rates are 2 to 2.5 percent.

Consequently, tariff elimination would greatly enhance the competitiveness in Mexico of Caterpillar's U.S.-manufactured products as demonstrated by the company's significant export gains since Mexico's recent trade liberalization. And, to a much lesser extent, tariff elimination would improve the competitiveness of the company's Mexican products in the United States.

The most important benefit of a Free Trade Agreement will be increased economic growth. A recent study completed by Caterpillar concluded that an FTA which frees capital flows "will increase investors' confidence in Mexico and trigger increased capital inflows." Caterpillar projects that increased capital inflows will "add 1 to 1.5 percent annually to Mexico's GDP growth on top of an already favorable outlook for the 1990s." Increased economic growth will further stimulate demand for American exports.

For the construction equipment industry as a whole, Caterpillar estimates that tariff elimination -- coupled with increased economic growth -- will increase demand in Mexico by 250-350 units annually. This could represent an increase in U.S. exports of 15-20 percent, or $35-45 million, from levels expected without the FTA.

Important Markets ... Improved Competitiveness ... Increased Growth ... for Caterpillar, a United States and Mexico Free Trade Agreement will help create a trade environment conducive to the company's long-term growth objectives.

Should you have questions, please call William C. Lane, Representative, International Issues, Governmental Affairs, on 309/675-5813.

Very truly yours,

D. F. Coonan

Vice President
Asia-Pacific-Latin America

Donald F. Coonan
jb

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February 21, 1991

STATEMENT TO THE HOUSE WAYS AND MEANS SUBCOMMITTEE ON TRADE
ON THE PROPOSED NEGOTIATION OF A FREE TRADE AGREEMENT WITH MEXICO

In a separate statement we, along with nine other companies, are opposing duty-free treatment on canned sweet peppers and prepared or preserved pimientos from Mexico as follows:

HTS 2005.90.5510	Canned Sweet Peppers
HTS 2005.90.5000	Heat-processed Pimientos
HTS 2001.90.3500	Pickled Pimientos

We concur in all of that statement and wish to go still further because we also can tomatoes. We are opposed to duty-free treatment for tomato products as follows:

HTS 2002.10.0000	Canned Tomatoes
HTS 2002.90.0000	Tomato Paste, Tomato Puree, and Other Tomato Concentrates
HTS 2002.20.4000	Tomato Sauce

As a matter of fact, we see a problem for the U.S. food processing industry on any product that is grown and canned in the United States and that can also be grown and canned in Mexico. Most canned products are labor-intensive and there is no way a firm in the United States complying even with our minimum wage scale can compete with firms in Mexico paying 1/8th of our minimum of $4.25 which is soon to go into effect.

In Mexico, the minimum wage for cannery workers is 12,000 pesos for eight hours (at 2950 exchange rate, this equals 51¢ per hour versus our soon-to-be minimum of $4.25 per hour).

There is a vast difference between free trade with Canada and free trade with Mexico. Canada does not have the potential to disrupt things in our country as does Mexico. The problem is that people in our country are already having a difficult time trying to survive in the face of unfair competition from abroad, and if the added problem of duty-free goods from Mexico is placed upon us, we will have something on our hands that is beyond our ability to control and overcome.

Answers to Subcommittee Questions

The answers to the questions in the Subcommittee'sPress Release #1 are as follows:

-- A Free Trade Area agreement with Mexico is not in the economic interest of my company nor, we believe, of the U.S. food processing industry. Duty-free treatment on canned and frozen vegetables from Mexico will result in massive shifts in farm production, food processing, employment, and rural community income from the United States to Mexico. For a government knowingly to "negotiate" for such a certain outcome--trading the livelihood of thousands of its citizens for the benefit of another country--is cock-eyed. Negotiations for a U.S.-Mexico FTA should not be conducted. The proposed FTA should be blocked by Congress.

-- If there must be a Free Trade Area agreement with Mexico, it should be limited in scope to product sectors which are interested in such an agreement. Processed foods should be excluded from the scope of the FTA at the outset. It is urgently recommended that Congress block the negotiation of a U.S.-Mexico FTA until bilateral arrangements are made to exclude processed foods (and other product sectors, as appropriate) from the product coverage of the FTA agreement.

-- The concept of an integrated North American free trade area embracing third world countires in the south with the two developed countries in the north is incomprehensible. The economies and standards of living are vastly different. Wealth does not filter down in the developing countries, and a free trade area will chiefly enrich those in the developing countries who are already well off.

-- USTR's request to the USITC for probable effects advice should include a request to the USITC to recommend creative innovative mechanisms for phasing out U.S. duties under the agreement and the articles for which special long-term staging should be provided. U.S. tariffs on import-sensitive products from Mexico should be phased out at no more than one percentage point a year. Tariff-rate quotas also should be considered.

CONCLUSION

Free trade with Mexico would be detrimental to our national welfare. Mexico will benefit at the expense of the U.S.

Canned sweet peppers, pimientos and tomato products are among processed food products which should be excluded from the product coverage of the United States-Mexico FTA at the outset.

Congress should block negotiations of United States-Mexico FTA until bilateral arrangements are made to exclude processed foods from coverage by the agreement.

Respectfully submitted,

CHEROKEE PRODUCTS COMPANY

G. Albert Bloodworth, Jr.
President

Cherokee Products Company, P.O.Box 98, Haddock, GA 31033-0098, Ph.: 912-932-5211
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Dunbar Foods, Inc., P. O. Box 519, Dunn, NC 28334, PH.: 919-892-3175
Moody Dunbar, Inc., P. O. Box 68, Limestone, TN 37681, PH.: 615-0257-2111
Furman Foods, Inc., RD #2, Northumberland, PA 17857, PH. 717-473-3516
The Mancini Packing Co., Inc., P.O.Box 157, Zolfo Springs, FL 33890, PH.: 813-735-0678
G. L. Mezzetta, Inc., 1201 E. MacArthur St., Sonoma, CA 95496, Ph.: 707-938-8388
Monticello Canning Co., Inc., P.O.Box 3509, Crossville, TN 38557, Ph.: 615-484-6727
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February 21, 1991

STATEMENT TO THE HOUSE WAYS AND MEANS SUBCOMMITTEE ON TRADE
ON THE PROPOSED NEGOTIATION OF A FREE TRADE AGREEMENT WITH MEXICO

The above ten companies oppose duty-free treatment on canned sweet peppers and prepared or preserved pimientos from Mexico. If there must be a Free Trade Agreement with Mexico, canned sweet peppers and pimientos are among the products which should be excluded from the negotiations at the outset.

Canned sweet peppers and pimientos are the principal products--the backbone of the businesses--of four of the above ten companies (Cherokee Products, Moody Dunbar, Monticello Canning, and Saticoy Foods). Canned sweet peppers are among the products--ranging in importance from major to minor--packed by the other six firms.

Existing MFN tariff rates are not an impediment to imports from Mexico of either product. Mexico is the No. 1 and dominant foreign supplier of canned sweet peppers and is becoming an important foreign supplier of pimientos, second only to Spain.

The above ten companies believe that they would be extremely adversely affected, probably unable to survive in business, if U.S. tariffs on canned sweet peppers and pimientos from Mexico are reduced or eliminated. We oppose the negotiation of a free trade agreement with Mexico which results in any reduction in U.S. rates of duty on canned sweet peppers or pimientos from Mexico.

The products of concern are:

HTS 2005.90.5510	Canned Sweet Peppers
HTS 2005.90.5000	Heat-processed Pimientos
HTS 2001.90.3500	Pickled Pimientos

Because processed foods are marketed the year-around, competition in processed foods is head-on competition all year long. There is no"complimentarity" in shelf-stable processed foods.

Canned and frozen vegetables, which are marketed the year around, are among the U.S. products which are certain to be displaced by imports from Mexico if duty-free treatment is accorded to them. The effects of import displacement will be widespread. Duty-free treatment on these processed foods from Mexico will result in the transfer of farm production, food processing, employment, and income in rural communities, where it is most needed, from the United States to Mexico. That is one of the most certainly predictable outcomes of such an agreement.

Each of the above ten companies is a family-owned and operated company. Each is a "small business" concern as defined by the Small Business Administration in that its total number of employees on a full-time basis is less than 500. Each of the ten companies is located in a small rural community and is a major employer in its area.

It is unfortunate but nonetheless a fact that wages in food processing are among the lowest in the United States. When American foods are displaced by imports, the workers in this country whose jobs are lost to imports are those who can least afford the loss of income and are least able to find other employment. Many are seasonal employees who have no other incomes and no other employment opportunities. Many of them cannot be trained for other work. Workers on the lowest rung of the U.S. economic ladder will be sacrified in order to create jobs in Mexico.

The ten companies provide year-round employment for an estimated 400 office, warehouse, and maintenance workers and seasonal employment for 2000 production workers. Four of the companies operate in counties which have been designated by the Labor Department as "Labor Surplus Area" counties (Del-Mar Food Products, Furman Foods, Mancini Packing, and Monticello Canning).

The ten companies contract each year with growers in the seven states in which their canneries are located and also with growers in Alabama, Kentucky, New Mexico, and Ohio for acreage of raw products for delivery to processing plants. The industry contracts with about 2600 growers for approximately 8750 acres of peppers and pimientos. Growers were paid about $7 million in 1989 and about $8 million in 1990 for the raw products for processing. Most of the farm income derived from these and other processing crops is spent in and around rural communities in 11 states.

Answers to Subcommittee Questions

The answers to the questions in the Subcommittee's Press Release #1 are as follows:

-- A Free Trade Area agreement with Mexico is not in the economic interest of these ten companies nor, we believe, of the U.S. food processing industry. Duty-free treatment on canned and frozen vegetables from Mexico will result in massive shifts in farm production, food processing, employment, and rural community income from the United States to Mexico. For a government knowingly to "negotiate" for such a certain outcome--trading the livelihood of thousands of its citizens for the benefit of another country--is cock-eyed. Negotiations for a U.S.-Mexico FTA should not be conducted. The proposed FTA should be blocked by Congress.

-- If there must be a Free Trade Area agreement with Mexico, it should be limited in scope to product sectors which are interested in such an agreement. Processed foods should be excluded from the scope of the FTA at the outset. It is urgently recommended that Congress block the negotiation of a U.S.-Mexico FTA until bilateral arrangements are made to exclude processed foods (and other product sectors, as appropriate) from the product coverage of the FTA agreement.

-- The concept of an integrated North American free trade area embracing third world countries in the south with the two developed countries in the north is incomprehensible. The economies and standards of living are vastly different. Wealth does not filter down in the developing countries, and a free trade area will chiefly enrich those in the developing countries who are already well off.

-- USTR's request to the USITC for probable effects advice should include a request to the USITC to recommend creative innovative mechanisms for phasing out U.S. duties under the agreement and the articles for which special long-term staging should be provided. U.S. tariffs on import-sensitive products from Mexico should be phased out at no more than one percentage point a year. Tariff-rate quotas also should be considered.

Excluding Canned Sweet Peppers and Pimientos from the FTA

Canned Sweet peppers and pimientos are especially vulnerable to import competition because almost all of the canned sweet peppers and much of the pimiento pack is purchased by institutional and food service customers for use as an ingredient in other food products. There are no consumer brand loyalties. The only considerations of our customers are quality and price.

In such a market environment, there is no way that processors can create or increase consumer demand for our products through self-help programs such as advertising or promotion. The consumption of canned sweet peppers and of the portion of the pimiento pack utilized in processed cheeses and meat products depends on the marketing efforts of the other food manufacturers for whom sweet peppers and pimientos are ingredients and on public acceptance of composite food products.

The existing U.S. rates of duty on canned sweet peppers and on pimientos are not an impediment to imports. Mexico is already the dominant foreign supplier of canned sweet peppers and is second only to Spain as a foreign supplier of pimientos.

Conclusion

Canned Sweet peppers, and pimientos are among the processed food products which should be excluded from the product coverage of a U.S.-Mexico FTA at the outset.

Congress should block negotiation of a U.S.-Mexico FTA until bilateral arrangements are made to exclude processed foods from the product coverage of the agreement.

Respectfully submitted for the
above-named companies

G. Albert Bloodworth, Jr.
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STATEMENT OF CHOCOLATE MANUFACTURERS ASSOCIATION OF THE U.S.A. AND NATIONAL CONFECTIONERS ASSOCIATION OF THE U.S.

The Chocolate Manufacturers Association of the U.S.A. (CMA) and the National Confectioners Association of the United States (NCA) welcome this opportunity to address the prospect of free-trade negotiations with the Government of Mexico. The CMA and NCA represent confectionery companies with 166 locations in 32 states, comprising about 90% of the chocolate and sugar confectionery produced in this country. We are a $11-12 billion industry at retail.

A free-trade agreement with Mexico could reap immediate benefits to our members so long as mutual tariff elimination is accomplished immediately or on a very accelerated basis. We also believe these talks represent a unique opportunity to reform hemispheric trade in three of our essential raw materials -- sugar, dairy products and peanuts. Finally, any agreement should include international sanitary standards.

1. Immediate Tariff Elimination

Most confectionery imports from Mexico enter the United States duty-free under the Generalized System of Preferences (GSP). In contrast, U.S. confectionery exports[1] to Mexico are dutiable at 20%. While Mexico's current tariff of 20% marks progress over previous import bans and tariffs at 45%, the remaining inequity between the U.S. and Mexican tariffs still places our industry at a disadvantage in entering the Mexican market.

Recent statistics for U.S. trade with Mexico in sugar and chocolate confectionery show that our industry would benefit even in the short run from the further reduction of Mexico's trade barriers. Four years ago, Mexico's market was virtually closed to U.S. confectionery products. The U.S. confectionery industry responded vigorously to the opening of the Mexican market in 1988, and in 1990, the U.S. industry enjoyed a trade surplus in chocolate and sugar confectionery.

U.S. trade statistics for 1990 show that U.S. exports of sugar confectionery to Mexico totaled about six million kilograms, at a value of about $14 million, while imports of sugar confectionery from Mexico totaled about four million kilograms, at a value of almost $8 million. U.S. exports of chocolate confectionery to Mexico totaled over ten million kilograms, at a value of about $30 million, while imports of Mexican chocolate confectionery totaled over four million kilograms at a value of almost $7 million.

These figures show that the value per kilogram of U.S. confectionery products is substantially greater than the value per kilogram of the Mexican products. The recent growth in U.S. exports reveals that Mexican consumers value good quality, and U.S. products will benefit immediately from lower Mexican tariffs.

We believe that staged elimination of confectionery tariffs in a U.S.-Mexico Free Trade Agreement would perpetuate this hindrance to U.S. exports. The U.S.-Canada Free Trade Agreement provided for mutual elimination of confectionery tariffs over ten years, and the failure so far of U.S. exporters to increase their market share in Canada may be attributable to this slow phase out. But even if a ten-year phase out was necessary to protect the Canadian confectionery industry, as the Canadians argued, the Mexican confectionery industry does not need such treatment.

The Canadian confectionery industry was, and continues to be, splintered. It includes dozens of small manufacturers, with no single company supplying over 25% of the market. By

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[1] These are classified under HTS item numbers 1806.20 (bulk chocolate); 1806.31 (filled chocolate bars); 1806.32 (unfilled chocolate bars); 1806.90 (other chocolate confectionery, such as boxed chocolates); and 1704.9070 (sugar confectionery, i.e., not containing cocoa); and 1704.9030 (confections/sweetmeats ready for consumption, not containing cocoa).

contrast, decades of absolute protection in Mexico have fostered a very strong Mexican confectionery industry. It is dominated by La Azteca, a Mexican company which possesses about a 40% share of the chocolate market. The Mexican industry is not a "fledgling industry" in need of special advantages, since it already benefits from secure supply sources, longstanding distribution arrangements, brand-name recognition and other advantages which accrue to long-established, protected companies. Moreover, Mexico's 20% tariffs are even higher than the initial Canadian tariffs on confectionery, which were 12.5% and 15.5% in most categories in 1989.

As this Committee has recognized, for the United States, the success of a Free-Trade Agreement with Mexico will very much depend on increased U.S. exports by efficient and capital-intensive industries. The U.S. confectionery manufacturing sector is such an industry, and we hope that, once again, the Administration will not slow down confectionery export growth potential by agreeing to a gradual phase-out of confectionery tariffs, as it did in Canada Free-Trade Agreement. Their elimination should be immediate, and we hope this Committee and others in the Congress will support our position in your consultations with the Administration.

A central question raised at the hearings on the Mexico Agreement was whether plants would relocate to Mexico if there were no duties or other barriers between the United States and Mexico. The answer for the chocolate and sugar confectionery industries: probably not. There might be new plants built in Mexico to accommodate the sales in Mexico, but it would not be at the expense of relocating the plants outside the United States. The chocolate and confectionery industries are highly capital- intensive; automation is the objective of most of the manufacturers, so the differential in labor costs would not be significant enough for a company to relocate based on lower wages in Mexico.

2. North American Trade in Agricultural Products

Our second concern is with North American trade in three principal raw materials -- sugar, dairy products and peanuts. At least one of these products is protected in each of the three countries of North America. All three products are highly protected in the United States, and this leads to trade distortions and high costs which burden our industry. The U.S.-Canada Free Trade Agreement essentially deferred agricultural trade issues to the GATT Uruguay Round agriculture talks, which at the time held some promise that fundamental agriculture reform would occur on a multilateral basis. More recent developements in these talks, however, now suggest that neither the United States nor Canada will offer to reduce protection for its highly supported commodities because the European Community is not prepared to offer "acceptable" concessions in exchange.

Because fundamental global agriculture reform now appears unlikely in the next five years, a North American Free Trade Agreement presents the opportunity to ensure more market-orientation at least on this continent. Rather than wait for global reform in the year 2000 or later, our Government should work with the Mexicans and Canadians to get started in 1992. Not only would this enhance the confectionery industries of all three countries, but the solutions found in that process could provide the necessary blueprint for fundamental global reform in years to come.

3. International Sanitary Standards

We also believe any agreement should include the international sanitary standards of the World Health Organization or the Food and Drug Administration sanitary standards. This would assure consumers that products manufactured in Mexico, as well as those in the United States, were manufactured according to the Good Manufacturing Practices and sanitation procedures agreed upon by most countries.

* * * * *

Summary

In sum, the immediate mutual elimination of confectionery tariffs in Mexico Free-Trade Agreement is in the U.S. interest and should be promoted with vigor and commitment in the Mexico free-trade talks. These talks should also embark on the liberalization of North American agriculture trade.

STATEMENT OF ROGER B. SCHAGRIN, EXECUTIVE DIRECTOR AND GENERAL COUNSEL, COMMITTEE ON PIPE & TUBE IMPORTS

This statement is provided for the record before the House Ways and Means Committee on February 28, 1991 on the proposed U.S.-Mexico Free Trade Agreement and is submitted on behalf of the Committee on Pipe and Tube Imports (CPTI). The CPTI is a not-for-profit trade association consisting of 25 United States producers of steel pipe and tube products.

As a whole, the CPTI supports the overall objectives of a free trade agreement between the United States and Mexico. However, while we believe that the merits of a free trade agreement are beneficial to our two economies, we believe that there are important components of the proposed agreement which must be looked at in great detail prior to the completion of any final agreement. We would like to address our concerns regarding specific provisions of the proposed agreement.

First, we firmly believe that the goal of the FTA with Mexico should encompass the objective of the immediate elimination of tariffs on all pipe and tube products, rather than adopt a provision which phases out tariffs as was agreed to in the U.S.-Canada Free Trade Agreement. The elimination of tariffs on products between our borders will allow for greater expansion of trade between the two countries and will provide industries with the ability to trade fairly across the border.

Second, with regard to market access, the CPTI strongly believes that any agreement reached by our countries must ensure that restrictive Mexican government procurement laws and practices are eliminated to insure that U.S. goods and services are provided equal access to all Mexican markets, including state-owned companies. Third, the CPTI strongly opposes any proposal which would give preferential treatment to Mexico under the U.S. antidumping and countervailing duty laws.

It is important to provide Congress with a perspective on the trends experienced by the domestic pipe and tube industry on exports to Mexico. Since 1984, U.S. exports of steel to Mexico have steadily increased. In 1989, the U.S. industry had a 33,375 ton surplus in steel trade with Mexico. However, at the same time, U.S. exports of pipe and tube products to Mexico have drastically decreased, while imports of Mexican pipe and tube products into the U.S. have risen continuously. In 1989, the U.S. pipe and tube industry ran a 116,812 ton deficit with Mexico. This compares to an 84,752 ton deficit in 1985, and a 67,352 ton surplus in 1980 (See Attachment).

The decline in U.S. pipe and tube exports to Mexico is not attributable either to better Mexican products or to declining Mexican consumption of such products. Rather, the decrease in U.S. exports of pipe and tube is a function of Mexican law and practice which requires state-owned (or parastatal) companies to favor Mexican products, higher tariff rates and other charges on imported products. The largest purchaser of pipe and tube products in Mexico is the state-owned oil company Petroleos Mexicanos ("PEMEX"). United States pipe and tube companies cannot sell their products to PEMEX unless the products are not manufactured in Mexico.

The experience of the U.S. pipe and tube industry in trade with Canada is in sharp contrast to its experience in Mexico. The U.S. has benefitted from the level playing field that is being created by the U.S.- Canada FTA. Exports of pipe and tube products to Canada have increased over the last two years as both tariff and non-tariff barriers have decreased. The U.S. industry is interested in competing in Mexico on similar price and quality bases. Therefore, it supports an agreement that would eliminate both tariff and non-tariff barriers alike.

At present, import duties for all seamless and welded non-alloy steel pipes and tubes not exceeding 406.4mm in outside diameter classified in HS (HTSUS) headings 7304 and 7306 are significantly higher in Mexico than in the United States. U.S. tariffs on such products range from .5 to 8 percent. Mexican import duties on the same products are 15 percent on all products classified under 7306, and 10 or 15 percent on all products classified under 7304.

The effective tariff rate on imports to Mexico is higher as a result of two factors: (a) all products imported into Mexico are subject to a variety of additional import charges apart

from the basic tariff; (b) Mexico's tariff calculation methodology, by assessing duties on insurance, freight and handling, as well as on the declared value of the product, results in higher actual import duties.

With regard to the additional charges on imports, the Mexican government assesses: a customs service fee of .6 percent (.8 percent on Sundays); an added value tax of 15 percent applied to the normal customs value of the good; a municipal tax of 3 percent of the federal duties; and an export promotion surcharge of 2.5 percent. These additional surcharges provide a further level of protection to the Mexican economy.

With regard to the tariff calculation methodology used by Mexico to assess duties, the inclusion of insurance, freight and handling charges to the value of the product, which the U.S. excludes in its calculations, results in higher import duties.

Since steel products are fungible and therefore very price sensitive, these differences in import duties render U.S. products noncompetitive. Therefore, an agreement between the U.S. and Mexico should ensure the immediate elimination of all import duties and import-related charges on such products. If an extended phasing-out of tariffs is adopted, the U.S. industry will continue to be excluded because of the higher prices created by the tariffs.

The Congress should work with the Administration to ensure that U.S. companies are granted the same treatment as Mexican products under a FTA. Mexican companies in which the government is a major shareholder, referred to as "parastatal" companies, are required, by law, to buy locally manufactured products whenever possible.[1] This law has an egregious effect on U.S. pipe and tube manufacturers since the largest company in Mexico, PEMEX, a parastatal entity, is also by far the largest purchaser of pipe and tube products. PEMEX buys Mexican pipe and tube products without obtaining price quotes from U.S. manufacturers.

United States producers who have contacted PEMEX in order to attempt to become suppliers of pipe and tube products have been regularly dismissed. Thus, it appears that PEMEX has gone beyond the basic regulation requiring parastatal companies to prefer Mexican products, and has adopted a policy of buying Mexican products no matter what the price or quality differences.

A similar complaint was brought by Gary D. Nicholson, LTV Energy Products, on behalf of the Petroleum Equipment Suppliers Association at the Commission's hearing in McAllen, Texas on July 16, 1990. Mr. Nicholson testified that Mexican government procurement practices in the energy sector effectively create a non-tariff barrier to entry even though some of the requirements regarding parastatal purchases have been eliminated. He also stated that PEMEX purchasing procedures are unnecessarily "lengthy and complex ... which makes it very difficult to establish commercial relations."[2]

We are also aware that the Mexican government has refused to sign the GATT Procurement Code, which would have demonstrated Mexico's commitment to eliminating these discriminatory government purchasing rules.

Finally, the CPTI has expressed the need to preserve and retain our U.S. antidumping and countervailing duty laws. We believe that under the FTA, Mexico should not be given any preferential treatment. A Free Trade Agreement should not guarantee Mexican businesses absolute access to the U.S. market. Therefore, we urge Congress to reject any attempt by Mexico to obtain an exemption from the U.S. unfair trade laws, particularly the antidumping

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[1] Law on Acquiring, Renting, and Services Rendered Concerning Moveable Property by the Federal Government in Mexico to result in more efficient activity by the federal administration, published in Diario Official, February 13, 1990.

[2] Review of Trade and Investment Liberalization Measures By Mexico and Prospects For Future United States-Mexican Relations, Phase II, USITC Publication 2326, October 1990, at 2-11.

and countervailing duty laws. United States trade laws are designed to defeat unfair trade practices that injure American industries. If Mexican firms were not subject to these laws, such practices would only be encouraged. This hurts U.S. industries, but it also would stunt Mexico's economic development program, which is critically important to the future of U.S.-Mexican economic relations.

CPTI also believes that any Free Trade Agreement should be premised on changes in the current Mexican antidumping and countervailing duty laws. These laws, which permit imposition of provisional duties without notice to the affected importer, within five working days following the initiation of a proceeding, are highly unfair.[3] In the United States, such laws would be declared unconstitutional since they do not afford due process.

In conclusion, the CPTI supports the successful negotiation of a Free Trade Agreement with Mexico that will ensure immediate elimination of all tariff and non-tariff barriers to trade so that U.S. producers will gain equal access to the Mexican market. Any agreement reached should seek to abolish government procurement practices that discriminate against foreign suppliers. Finally, CPTI is opposed to any agreement that would give Mexican products preferential treatment under U.S. unfair trade laws.

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[3] See Review of Trade and Investment Liberalization Measures By Mexico and Prospects For Future United States-Mexican Relations, Phase I, USITC Publication 2275, April 1990, at 4-15.

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STATEMENT OF SCOTT PATTISON
DIRECTOR, WASHINGTON OFFICE, CONSUMER ALERT
TO THE
SUBCOMMITTEE ON TRADE
HOUSE COMMITTEE ON WAYS AND MEANS

PROPOSED NEGOTIATION OF A
FREE TRADE AGREEMENT WITH MEXICO

February 20, 1991

CONSUMER ALERT, a nationwide non-profit consumer membership organization committed to free trade, economic growth, and a healthy society, strongly supports the initiative of the U.S. and Mexico to negotiate a comprehensive free trade agreement. Free trade between the U.S. and Mexico will lead to stronger economic growth, lower prices and a much greater selection of goods and services. Congress should allow the negotiations to go forward by accepting the President's request for fast track authority.

Consumers in both nations will significantly benefit from a free trade agreement and free trade will strengthen the economies of both the U.S. and Mexico. A stronger Mexican economy is of particular importance to the U.S. since Mexicans are such good customers for U.S. products. Sixty-seven percent of Mexican imports are from the United States. Mexicans purchased approximately $27 billion worth of U.S. goods and services in 1989. By the turn of the century, there will be 100 million Mexican consumers. The U.S. should not pass up the opportunity to open up this marketplace and make it tariff-free.

If Congress refuses to renew the President's fast-track authority, these great opportunities to strengthen our economies and increase U.S. exports could be lost. Fast track authority is crucial to the success of an agreement and is essential to prevent special interests from adding protectionist amendments that will hurt consumers, free trade and the agreement itself.

The primary argument used to oppose the granting of fast track authority is the misplaced belief that the U.S. will lose jobs to Mexico if an agreement is adopted. This contention overlooks two important factors. First, lower wage rates in Mexico will not determine whether certain jobs will move south of the border since many other critical factors influence a company's decision to move jobs. Technology, productivity, infrastructure, and economic stability are some of the many factors that also affect that decision. Second, in the few instances in which wage rates may significantly influence the decision, those jobs will continue to move out of the U.S. anyway. A free trade agreement with Mexico may actually keep those jobs closer to the U.S. and will benefit all Americans by increasing the export opportunities for U.S. companies and decreasing immigration-related problems.

Opponents of the fast track authority and thus a free trade agreement have also brought up a host of other irrelevant issues such as the drug war, the environment, even Mexico's political system, as reasons to oppose fast track authority. They argue that these important issues should be part of a free trade agreement and will be omitted if fast track authority is granted. This argument, however, is being used solely as a smokescreen to prevent a U.S.-Mexican trade accord. The assertion that other issues must be included is merely being used to derail a free trade agreement that would benefit consumers in both nations.

Many of these other issues, such as environmental protection, will actually be improved if a free trade agreement is concluded. This is because free trade will significantly strengthen the economies of both nations and will increase cooperation, contacts and good will between the two countries. Over the long term, we are confident that the results of trade liberalization will lead to improved economic, political and environmental conditions in Mexico. Improving the economy of Mexico is the most responsible way to ensure improvement in environmental conditions, working conditions, and the political system. Opposing fast track authority simply because not every possible issue is included in trade-agreement negotiations is not only shortsighted and misguided, but will also decrease the possibility of these other important issues ever being successfully addressed.

For the first time in many years, the entire continents of North and South America are committed to sensible economic reform and democracy. Failure to allow the negotiation of a free trade agreement between the U.S. and Mexico would be a failure to achieve more open trade and economic growth throughout Latin America. It could undermine the many new democracies and decrease cooperation between the U.S. and other nations. Mexico is one of our closest neighbors. We should therefore not prevent the enormous promise that awaits both the United States and Mexico if our two nations can negotiate a comprehensive agreement allowing free trade between our two countries.

Economic growth, lower prices, wider selection and increased export opportunities will result from a free trade pact with Mexico and will therefore significantly benefit all consumers in the U.S.

STATEMENT OF DOREEN L. BROWN, CONSUMERS FOR WORLD TRADE

Consumers for World Trade (CWT), a national non-profit organization established in 1978 and concerned with the interest of consumers in international trade policy, wishes to express its support for the negotiating of a comprehensive free trade and investment agreement between the United States, Canada, and Mexico. We urge the Congress to renew the fast track authority necessary for the start of these negotiations.

Mexico has made enormous progress over the past few years in opening its markets for goods, services, and international investments. A substantial degree of integration of the U.S. and Mexican markets has occurred to the benefit of Mexican and U.S. consumers. One of challenges of the FTA negotiations will be to consolidate these achievements and lay the groundwork for further marketplace integration.

There are, we believe, certain general principles which should overlay and guide the consideration of specific issues:

1. The FTA must be consistent with the requirements of the GATT.

2. The end goal should be a comprehensive agreement along the lines of the 1988 U.S. - Canada FTA.

3. The agreement should be designed to ensure that the economic benefits accrue primarily to consumers in the countries involved.

Consumers throughout North America will benefit from the creation of a tariff free market of some 400 million consumers and producers. This would be reflected in both lower prices for goods produced in the other countries in the area and in a wider selection of products available in the marketplace. In addition, international competitiveness of the exports of the region would be increased as the lowest cost production sources in the region could be utilized in producing for export.

Some sources have expressed the opinion that "hundreds of thousands" of jobs in manufacturing would be lost to lower paid Mexican workers in what is feared would be "a basic restructuring of the North American production processes." Many of these routine, low-paying assembly jobs, however, have already been lost due to relatively high U.S. wages for these low-skill tasks. The operation of the "maquiladora" plants along the Mexican border, which receive tariff exemptions on U.S. made imports assembled there, has at least kept some of these unskilled jobs within North America. If these products were not assembled in Mexico, they would be produced in other low-wage countries, largely in Asia, without the benefit of using U.S. made components.

Low wages do not necessarily mean low-cost. Costs depend on productivity per worker, and the U.S. worker is among the most productive in the world, with productivity increasing sharply in the last decade. And it is increased investment that is a principal factor in improving the world's productivity. This investment comes from corporate earnings, which increase if our exports are competitively priced and growing in world markets. To be competitive in world markets, our exports must be produced by the lowest possible combination of input costs. Hence, the argument for the increased competitiveness of North American exports if the lowest cost sources from throughout the region are available to our entrepreneurs to combine to produce quality products at the lowest costs possible.

U.S. textile and footwear producers are also in the vanguard of those opposed to liberalized trade with Mexico, or any other "low-wage" developing country. Tariffs of 25 or more percent, reinforced by strict quota allocations, currently are needed to

restrict imports to keep the U.S. textile industry profitable. Protectionism raises clothing prices to the U.S. consumer, which are especially onerous at the lower income levels where clothing purchases make up a larger proportion of the household budget - in effect, a regressive tax. Clothing manufacturers, however, generally welcome the opportunity to produce at lower costs in Mexico, and are already benefiting from greatly expanded exports to Mexico as that country's trade liberalization proceeds apace. U.S. retailers also look forward to increased sales as more lower priced products are made available for sale on the U.S. market.

Environmental conservation and human rights advocacy organizations are also questioning Mexican practices in these areas. While the stated goals of these organizations find wide support among the U.S. public, CWT questions if the negotiation of a free trade area is the most appropriate venue in which such considerations should be raised and possibly acted upon. Supporters of an agreement on both sides of the border fear that "overburdening" the negotiations with demands that are impossible to achieve in the short run, or that are already under negotiation in other arenas, may - in the end - serve the ends of the trade protectionists in thwarting any agreement at all.

Consumers for World Trade supports President Bush's proposal for the creation of a North American free trade area. CWT would have preferred to have had an extremely successful and productive Uruguay Round of global trade negotiations to liberalize trade on a worldwide basis, and still supports the "hope" that some positive elements can be salvaged and implemented from the current stalemated trade negotiation which started all too long ago in 1986. While trade liberalization on a regional basis may be a "second best" solution, it does promise substantial benefits for U.S. and other North American consumers, and hence warrants their support and the support of Congress.

SUBMITTED BY

COMMITTEE ON PIPE AND TUBE IMPORTS

Tex-Tube Division
Cyclops Corporation
P.O. Box 7705
Houston, Texas 77270
(713) 686-4351

February 27, 1991

Mr. Roger B. Schagrin
CPTI
Committee on Pipe and Tube Imports
1112 Sixteenth Street, N.W.
Suite 1000
Washington, D.C. 20036

Dear Roger:

On behalf of Tex-Tube Division, I hereby submit our comments regarding the upcoming "Free Trade Agreement with Mexico".

Tex-Tube Division - Cyclops Corporation located in Houston, TX is one of the leading U.S. producers of light - wall ERW-HF line and standard pipe in sizes ranging from 2 3/8" O.D. to 8 5/8" O.D. The company has been in business for over 45 years and our products are utilized in crude oil and natural gas gathering, transmission, and distribution pipelines. In addition our products are utilized to transport refined petroleum products and various industrial applications such as piping in chemical processing plants. Tex-Tube Division supports the effort of the United States Government to gain a free trade agreement with the Government of Mexico in the broadest sense. However, our support of such an agreement would depend on the fairness of the agreement. In our thinking free trade implies free trade for both countries - Mexico and the U.S., not just for Mexico. To support the agreement, it would have to address the following points:

1.) Tariffs (Tubular Products)
Currently Mexico pays tariffs of .05% to 1.9% of product value when exporting line and standard pipe products into the U.S. Conversely, the U.S. producers currently pay a tariff of 15% of products value when exporting product into Mexico. Any free trade agreement effected should eliminate all tariffs on line and standard pipe products passing between the borders of the two countries from the first day of the inception of the agreement. At the very least the Mexican Tariffs should be reduced to the U.S. tariff value of like product from the agreement's first day. An agreement which reduces tariffs over a 10 year period, 10% a year, like the U.S. - Canadian Free Trade Agreement is unfair to the U.S. Producers. Ten year tariff phase out would not provide for fairness to U.S. Producers and would not be supported by Tex-Tube Division.

2.) Tariffs (Flat-Rolled Steel Products)

The United States currently has an invented tariff system between flat - rolled steel products (our raw material) and tubular products. Currently the U.S. accesses a tariff of .05% to 1.9% on tubular products while flat-rolled steel products carry a tariff of 5 to 6%. The U.S. inverted tariff system encourages foreign producers to export tubular products (the value added product) and not the raw material for U.S. tubular producers (flat rolled steel). The tariff on flat rolled steel products should also be eliminated on both sides of the border, or at the very least be brought down to the level of the tubular product's tariff.

3. Government Ownership and Subsidization of Mexican Steel and Pipe Mills.

In the United States all pipe and steel mills are privately owned and not subsidized by the U.S. Government. This is not the case in Mexico and should be addressed in the U.S. Mexico Free Trade Agreement. Any amount of money received from the Mexican Government by pipe and steel mills in Mexico should be added on to the cost of the product per current United States Trade Legislation. Again "Free Trade" should mean just that free and fair trade.

4. Non - Tariff Barriers In Mexico

a.) The principal end user of line and standard pipe products in Mexico is Pemex, the Mexican Government owned and controlled oil and gas entity. Although other users of our product exist, Pemex is by far the largest buyer of line pipe in Mexico as they control the entire industry.

In the United States the oil and gas industry is owned and operated by private companies, who can freely make their own choice of whether to procure tubular products from domestic or foreign sources. The current practice in Mexico by Pemex tends to be that they purchase only from foreign sources product that cannot be produced in Mexico or is in short supply in Mexico. Line and standard pipe products in Tex-Tube's size range are produced in Mexico and therefore have not been purchased by Mexico except in situations of short supply. This practice by Pemex must be abandoned for free and fair trade to exist between the two countries. U.S. producers must be given the same opportunities in Mexico that foreign producers are given in the U.S. The buying decision should be made on attributes of quality, price and service not government influence.

b.) Another non-tariff barrier that exists in Mexico is that per the Constitution of Mexico no private ownership or participation in the Mexican Oil and Gas Industry is allowed by foreign companies. If the industry was open to investment by U.S. energy concerns the participation in the Mexican Market by U.S. tubular producers would be greatly enhanced. This access should be paramount to the U.S. - Mexico Free Trade Agreement. Mexico has proven oil reserves that double those of the U.S. This participation by U.S. concerns would also create more jobs and opportunities for the citizens of Mexico.

In summary Tex-Tube Division - Cyclops Corporation would support a U.S. - Mexico Free Trade Agreement that gives the U.S. producer the same opportunities in Mexico, that are extended to Mexican producers in the U.S. Free and Fair Trade for U.S. producers is all that we expect from the agreement. Any agreement that calls for anything less than equal opportunity would not be supported by Tex-Tube.

Cordially,

Carl G. Farnsworth
General Manager

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Distilled Spirits Council of the United States, Inc.

February 14, 1991

Mr. Robert J. Leonard
Chief Counsel
Committee on Ways and Means
U.S. House of Representatives
Room 1102
Longworth House Office Building
Washington, D.C. 20515

RE: Subcommittee on Trade of the Ways and Means Committee Hearing on the Proposed Negotiation of a Free Trade Agreement with Mexico

Dear Mr. Leonard:

DISCUS is very interested in the negotiation of a possible U.S./Mexico Free Trade Agreement. I enclose the comments we filed with the International Trade Commission concerning the implications for the U.S. distilling industry of a U.S./Mexico Free Trade Agreement.

We would like these comments to be made part of the printed record of the Trade Subcommittee's hearing regarding same.

Sincerely,

F. A. Meister

F. A. Meister
President/CEO

FAM:ss

Enclosure

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Distilled Spirits Council of the United States

December 10, 1990

Mr. Kenneth R. Mason
Secretary
United States International Trade Commission
Washington, DC 20436

RE: Investigation No. 332-297/Likely Impact of a Free Trade Agreement with Mexico on the United States

Dear Sir:

I am writing on behalf of the Distilled Spirits Council of the United States, Inc., (DISCUS), a national trade association representing the suppliers of over 85% of the distilled spirits sold in this country, in response to the International Trade Commission's request for information concerning the implications for the United States of a U.S./Mexico Free Trade Agreement. DISCUS members export a great volume of distilled spirits to markets around the world, including Mexico. DISCUS and its members always have supported free and unfettered access to markets around the world, as well as harmonization of technical and product standards in such markets to ensure the free flow of trade. In the case of a contiguous market such as that of Mexico, it is even more important to align the various requirements, standards and practices pertaining to the U.S. spirits industry to ensure the integrity of the U.S. regulatory system and the elimination of non-tariff barriers that now impede access to the Mexican marketplace.

Distilled spirits are a highly regulated consumer product on both the federal and state level in the United States. In that regard, any U.S. free trade agreement with Mexico should contain requirements similar to those imposed in the United States in terms of product standards, product approvals, and the distribution and marketing of product to ensure an orderly market and fair access of U.S. products into the Mexican market. The Bureau of Alcohol, Tobacco and Firearms, the regulating agency for alcohol beverages, has established an extensive system of regulations pertaining to, among other things, product formula approvals and testing procedures. Any free trade agreement should give accord to those regulations.

Any such free trade agreement also should not supersede any laws or regulations passed in the United States pursuant to the 21st Amendment for goods imported into the United States from Mexico. These particularly would include state statutes and regulations concerning primary American source laws, which require wholesalers to purchase product from the primary American source of supply or his designated agent.

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FAX (202) 682-8888

thereby preventing out-of-state-wholesalers from transshipping goods to an in-state retailer without passing through, or "coming to rest" or paying taxes via an in-state wholesaler. These laws promote, among other things, the orderly collection of alcohol beverage taxes by the states by confining distribution to in-state wholesalers. They create an audit trail, thereby reducing the recordkeeping and enforcement burdens on state agencies.

Primary source regulation also promotes competition and efficient marketing in the liquor business. Through primary source laws, the majority of license states prohibit non-resident suppliers from selling to wholesalers in the state unless the supplier is the primary American source for the brand. Primary source laws are necessary to preserve the designated wholesaler system of distribution in the distilled spirits industry. This industry, like most others, uses a designated wholesaler system for promoting, merchandising and distributing its products, providing adequate information and services to retailers, and ensuring the widest choice of quality products for consumers. The system fosters competition between brands and fosters individual initiative, while ensuring consumers that a wide range of products will be available. The critical underpinning of the viability and effectiveness of such a system is the guarantee that only wholesalers designated by the supplier will distribute each brand. Without that guarantee, no wholesaler has the incentive to make the necessary investments to promote and distribute the product.

Without primary source laws, alcohol beverages can be brought into the state from any number of sources and by any number of persons. With primary source regulation, states know who is authorized to bring each brand into their state and thus provide an easy audit trail for the state's revenue authorities to account for all beverages brought into the state and to ensure the collection of taxes.

Any free trade agreement also should recognize the rights of brand owners and importers to establish territorial licenses, by country, for their product. These particularly are important when a brand owner has different national distributors in the United States and Mexico and also when subdistributors in one country may desire to export goods into the second country even though their supplier/licensee is not authorized by its contract with a brand owner to do so. Therefore, the free trade agreement should avoid the result whereby local distributors are allowed to transport goods into another country where a brand owner has franchised distributors in that country. In that regard, the use and recognition of certificates of origin should be incorporated in any free trade agreement with Mexico.

Mr. Kenneth R. Mason
December 10, 1990

Any free trade agreement with Mexico should afford an opportunity for improved protection of intellectual property rights. The experience in the industry has been that the current Mexican system encourages trademark piracy by allowing imitators to register well-known foreign marks in derogation of the rights of the true owner. Any free trade agreement should encompass a mutual recognition of intellectual property rights.

Any free trade agreement also should remove the excessive documentation and ancillary fees now required by Mexico for imported product. There currently is a lengthy and burdensome process to obtain an import license. For example, a declaration of value for all imports, which consists of a complex 2-page inquiry form, must be provided with each imported consignment. Certificates of analysis, free sale and the technique of manufacture are required for registration of a brand, and a certificate of analysis also is required with each shipment.

All brands of alcohol beverages must be registered with the Ministry of Health. Such registration must be renewed annually and requires an inordinate amount of documentation, specimen labels, samples, and local analysis. The local analysis procedure requires the submission of a one liter sample for local analysis before a brand is registered. Product registration is obtained when three sample bottles for each shipment are submitted to the Mexican Ministry of Health. Photographs of the bottles also are required. Several government offices intervene in the inspection process (e.g., Secretary of Health, Secretary of Commerce, Secretary of Agriculture and Water Resources). All documentation required by the Ministry of Health and the Ministry of Finance must be notarized by a U.S. notary and then presented to a Mexican consulate for further verification and payment of fees (consularization). The procedure for approval takes an inordinate amount of time. It is our understanding that the quickest registration takes 6 months to complete.

In addition, the Mexican officials are charging fees to U.S. exporters for registration and licensing requirement procedures. We understand that the registration fee charged by the Ministry of Finance for imported product is much higher than that charged for domestic product. In addition, registration fees for imported products include a 100% surcharge in order to obtain the obligatory health registration and income tax registration number from the Secretary of Health.

In addition to the number of certification and documentation barriers that remain in place in the Mexico market, import permits still are required: in some cases, the import permit relates to how much of the same commodity companies purchase on the domestic market. Under its GATT accession proposal, Mexico agreed to eliminate these permits by the end of 1987 or justify them. Neither of these steps has been taken. All imports are subject also to currency restrictions, such as Mexico's controlled rate of

exchange, which is lower than the free market rates. These matters also should be addressed in any free trade agreement.

The Mexico labeling requirements should be aligned with the U.S. requirements regarding exports. The current Mexico labeling requirements require that the front label must be in Spanish and the back label must include in Spanish the health registration number obtained from the Ministry of Health, the importer's name and address, the exporter's name and address, and the income tax registration. In any free trade agreement, these requirements should be aligned with the U.S. requirements regarding labeling of product for the export market.

We welcome the opportunity to work with you to ensure an equitable and fair free trade agreement with Mexico. Tariff and non-tariff barriers place unfair and discriminatory burdens upon the competition among goods from other countries and, absent compelling circumstances, should be eliminated wherever possible to provide a basis for free and unfettered trade. We recommend phased-in tariff reductions in any free trade agreement with Mexico to minimize the economic dislocation that would occur given the amount of investment by U.S. companies in products imported in bulk from Mexico into the United States. Concerning that issue, please find enclosed a copy of comments we filed with USTR opposing the petition by Mexico to grant GSP status to tequila in containers holding not over 4 liters.

Sincerely,

F.A. Meister

F.A. Meister
President/CEO

FAM:wd

Attachment

Distilled Spirits Council of the United States, Inc.

October 17, 1990

GSP Subcommittee
Office of the U. S. Trade Representative
600 17th Street, NW
Room 414
Washington, DC 20506

RE: Federal Register notice of August 24, 1990 announcing the consideration of petitions accepted in the 1990 GSP annual review.

Gentlemen:

The Distilled Spirits Council of the U.S., Inc. (DISCUS), whose members import approximately 85% of the bulk tequila entering the U.S., oppose the petition by Mexico to grant GSP status to tequila in containers holding not over 4 liters. One DISCUS member is in favor of granting GSP status to bottled goods.

While distilled spirits as a whole has been declining in sales at approximately 2% per year, tequila as a separate unit has held its own in sales and actually has shown an increase in a declining distilled spirits market in recent years. This growth is attributable to investment in production and marketing facilities by U.S. bottlers of bulk tequila. Continued investment and employment in the U.S. is based on the present tariff schedule. For these reasons and to maintain product consistency and to protect brand images, the U.S. bottlers of bulk tequila would not wish to change their established and successful bottling procedures.

DISCUS would appreciate being put on the record as opposing the Mexican petition

Sincerely,

F. A. Meister

F. A. Meister
President/CEO

FAM:sas

1250 EYE STREET N.W. SUITE [illegible]

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JOHN R. SINCLAIR
Minority Chief of Staff

One Hundred Second Congress

Congress of the United States

Committee on Foreign Affairs

House of Representatives

Washington, DC 20515

February 20, 1991

The Honorable Sam Gibbons
Chairman
Subcommittee on Trade
1136 Longwworth HOB
Washington, D.C. 20515

Dear Sam:

As your Subcommittee commences hearings on the proposed negotiations for a free trade agreement among the United States, Mexico, and Canada, I thought it might be timely to communicate to you my concerns and perceptions regarding those negotiations. While I believe that a more liberalized flow of goods and investment within North America can benefit all three countries, I also believe there are potentially serious adverse impacts which must be avoided.

I am particularly concerned over reported statements by Executive Branch officials that these negotiations are "trade negotiations" and that other issues will not be entertained. That attitude appears to be shortsighted and ignores current realities. The distinction between trade and other areas of national policy is increasingly becoming blurred. Just as the United States has been in the lead in the Uruguay Round in expanding the negotiations beyond matters that traditionally have been handled by the GATT -- such as trade in services and agriculture (including export subsidies and internal price supports) -- so the negotiations with Mexico and Canada must be open to all issues which affect trade. The inseparability of trade from other issues was recently recognized by U.S. officials in the communique of the January 30-31, 1991, OECD Ministerial on the Environment, which calls for "integrating economic and environmental decision-making."

One area in which the interrelationship of trade and other policies is clear is in U.S.-Mexican trade in agricultural commodities. Trade flows are affected not just by natural factors of production, but also by national policies covering the use of pesticides, quality control, worker health and safety standards, and governmental price and subsidy interventions. This phenomenon was recognized in the U.S.-Canada Free Trade Agreement, in that the elimination of tariffs on specific agricultural products was made dependent upon equalization of price interventions by the two governments. The same principle -- equalization of non-natural factors affecting production and price -- must be used to guide any agreement to liberalize trade in agricultural products between the United States and Mexico.

The Honorable Sam Gibbons
February 20, 1991

Page Two

We can all agree that the outcome of the trade negotiations must be a level playing field. Simply eliminating tariffs and classic non-tariff barriers will not achieve this result, as these traditional barriers are becoming less important and are being overshadowed by other policy measures affecting trade.

Specific U.S. concerns with regard to unequal levels of government intervention in agriculture cover a range of issues, including environmental regulations, restrictions on use of pesticides, and worker health and safety regulations. In Mexico regulations in these areas are minimal, if they exist at all, and enforcement is negligible. The negotiations also must address other areas, beyond agriculture, in which there are differences in governmental policies and regulations, including anti-trust policies, protection of intellectual property rights, and transportation regulations. Furthermore, the breadth and scope of environmental regulation must be confronted, as there is growing concern over the potential impact on the environment from a free trade agreement with Mexico. The agreement must place a high threshold on rules of origin (higher than in the U.S.-Canada FTA) and insure vigorous enforcement in order to avoid creating the potential for Mexico to serve as an export platform for third country products.

There obviously are alternative approaches to equalizing the affects of governmental intervention, including harmonization of governmental policies and regulations or using tariff and non-tariff barriers to compensate for unnatural factor differentials. I trust the U.S. approach to the negotiations will be to offer to Mexico the opportunity of using the negotiations to enhance its promotion and protection of important environmental and social values, and that, in the event that approach does not succeed, U.S. negotiators will insist on adequate protection for U.S. production and services whose operations are affected by national policies designed to promote the public interest.

I appreciate your consideration of these views, and I look forward to reviewing the recommendations which develop from your hearings and discussions with the Executive Branch.

With best wishes, I am

Sincerely yours,

Dante B. Fascell
Chairman

DBF:GMIdmh

STATEMENT OF FLORIDA CITRUS INDUSTRY ON U.S.-MEXICO ECONOMIC RELATIONS

I. Introduction

This statement is submitted on behalf of the Florida Department of Citrus, Florida Department of Agriculture and Consumer Services, Florida Citrus Mutual, Florida Citrus Processors Association, Florida Citrus Packers, Indian River Citrus League, Gulf Citrus Growers Association, Inc. and Citrus Grower Associates, Inc. in response to Chairman Gibbons' invitation to submit statements in conjunction with Committee on Ways and Means hearings on the proposed negotiation of a U.S.-Mexico free trade agreement.

As representatives of Florida's citrus industry, we appreciate the opportunity to file this statement with the Committee. We believe that future trade and economic relations between the U.S. and Mexico could have a substantial and direct impact on our industry.

The Florida citrus industry embraces the spirit underlying the proposed free trade agreement between the U.S. and Mexico. We recognize that there are many mutual advantages for both Mexico and the U.S. within the scope of a free trade agreement.

However, with respect to certain vital interests, we believe that free trade agreements often help lesser developed countries such as Mexico far more than developed countries such as the U.S. Also, free trade agreements with respect to certain interests can pose significant adverse effects on the economies of either trading partner.

We submit that it is not necessary for the U.S., in entering a new trade agreement with Mexico, to offer "free trade" in every single sector. Each sector should be considered separately. Even though free trade has been accomplished between the U.S. and Israel, and the U.S. and Canada in previous agreements, it should be determined whether that course is the most logical and best for the U.S. and Mexico to follow.

In our opinion, it is foolish for the U.S. to needlessly weaken certain U.S. industries in the misguided hope that we can enhance the economic positions of trading partners such as Mexico. There will be exceptions to the trade agreement. Mexico has already stated on several occasions that it will not permit its exported oil and gas to be the subject of free trade negotiations with the U.S. It makes more sense to help Mexico in sectors which will not devastate our own industries.

Without exceptions to a U.S.-Mexico FTA, some segments of U.S. agriculture will be devastated. In its report this month to the Committee, the International Trade Commission (Investigation No. 332-297) made the point repeatedly that horticultural products, such as citrus, would be disproportionately affected. There is no better example of this than the U.S. citrus industry, and Florida's citrus industry in particular. The following is a brief review of the U.S. and Mexican citrus industries and a summary of the estimated impact of an FTA on the U.S. citrus industry.

II. U.S. and Mexican Citrus Industries

The U.S. is one of the world's major citrus producers, accounting for 17.3% of the world's citrus production in 1988-89. The world's largest producer is Brazil, followed by the U.S., Spain, China and Mexico in order of importance. Oranges are the most important citrus variety grown in the U.S., accounting for about 70% of production. In the U.S., citrus is grown commercially in Florida, California, Texas and Arizona.

In 1988-89, Florida accounted for 72% of total U.S. citrus production. Florida's growing conditions allow production of citrus particularly suited for processing into juice. Consequently, Florida orange production accounts for nearly 90% of the processed orange volume in the U.S. Vital to Florida's economy, the citrus industry accounted for almost 32% of the $5.8 billion farm-gate receipts of the state in 1988. Also, almost one-half of the state's agricultural employment can be attributed to the citrus industry.

Mexico's citrus industry is substantial and growing. In 1989-90, Mexico produced 3.2 million metric tons of citrus, including 2.2 million metric tons of oranges. The 1989-90 orange production level is 67.4% above Mexico's average production level of the 1970's. USDA estimates that Mexico has over 640,000 acres devoted to orange production, more than 80% above the level ten years ago, and greater than Florida's orange acreage which is 564,809 acres.

In recent years, around 80% of Mexico's orange crop has been utilized to satisfy its domestic fresh market. However, processing utilization has doubled in the last 10 years because of generally higher world orange juice prices. Today, Mexico ranks as the world's third leading producer of processed oranges.

Mexico's citrus processing capacity has expanded to facilitate the increased interest in processing citrus, although only about half of its processing capacity is now being utilized. Today, there are 23 processing plants with a capacity of 34.7 million boxes, compared to nine processing plants with a capacity of 11.1 million boxes ten years ago.

Virtually all of Mexico's orange juice production is exported; exports have averaged almost 35,000 metric tons (65° Brix) per year over the last five years. The most important export market is the U.S., accounting for more than 90% of Mexico's orange juice exports.

The U.S. imports and exports both citrus and citrus products from and to Mexico, but the value of imports far exceeds the value of U.S. exports. In 1989, the U.S. imported $66.5 million worth of citrus and citrus products from Mexico, accounting for about 13% of all such imports. In contrast, U.S. exports of citrus and citrus products totaled only $1.5 million in 1989, accounting for only .2% of U.S. citrus and citrus product exports.

Orange juice, primarily frozen concentrated orange juice (FCOJ), accounts for virtually all of the U.S. imports of citrus juices from Mexico. In 1989, FCOJ imports totaled 36.2 million SSE gallons, representing 80.0% of U.S. orange juice imports from Mexico. In recent years, imports of single-strength orange juice from Mexico have increased dramatically. In 1989, U.S. single-strength orange juice imports from Mexico totaled 7.5 million SSE gallons, almost double the previous year's level, and up almost sixfold from 1987.

III. Economic Impact of a U.S.- Mexico FTA on U.S. Citrus Industry

The proposed FTA agreement would have different impacts on the citrus industries in both Mexico and the U.S. The Mexican industry would benefit and the U.S. industry would lose.

Removal of tariffs on U.S. citrus imports into Mexico will not result in increased U.S. exports to that country since Mexico produces the same or similar citrus products in quantities sufficient for domestic market needs. Moreover, Mexico's production cost advantage, even with trade barriers removed, would clearly undercut U.S. products from successful competition in the Mexican market.

The U.S. citrus market, on the other hand, is open for Mexican imports and is, in fact, Mexico's major export market. There are no quotas, licenses or agreements restricting Mexican citrus imports. U.S. tariffs on citrus and processed citrus products have not blocked imports from Mexico, but have in fact worked to offset the subsidies and lower wage rates available to the Mexican citrus industry. A trade agreement reducing or eliminating existing U.S. tariffs would devastate U.S. citrus producers, particularly growers of oranges for processing in Florida. Tariff reductions or eliminations would allow Mexican citrus products to be imported at prices which would undermine the profitability of the U.S. citrus industry.

As the Committee knows, Mexican wage rates are substantially less than those in the U.S. The U.S. hourly wage rate for agricultural labor is roughly equivalent to the daily wage rate in Mexico. Mexico has no national minimum wage law. Health and safety programs and non-wage benefits such as health insurance, workmen's compensation, social security and unemployment insurance, mandatory in the U.S., are neither required nor offered to the same extent in Mexico.

Beyond labor cost advantages, the Mexican industry benefits from significant government subsidies. Complete information on government support to the Mexican agricultural industry is difficult to obtain, but one of the most significant subsidies given to the Mexican citrus producers is through the land tenure arrangement in Mexico. Many Mexican citrus producers are "ejditarios", members of rural communities called ejidos, who have the right to use state-owned land. In fact, three-quarters of Mexico's citrus producers do not pay for the use of land. In effect, ejditarios receive a government subsidy in the form of free rent.

U.S. citrus producers receive no state or federal subsidies and are, in fact, facing increasing land tenure costs in Florida. According to a recent University of Florida study, land values for Florida's raw citrus acreage averaged $2,774 in 1987-88, 38% above comparable 1979-80 levels. Moreover, increasingly restrictive land-use laws limit the acreage that can actually be farmed. Producers in many citrus-producing areas in Florida now must set aside as much as 30% of purchased acreage for wetlands preservation, water retention purposes, wildlife preservation purposes, etc. These set-asides exacerbate the cost disadvantages Florida citrus producers face. As new environmental regulations are implemented in Florida, the cost differential between the U.S. and other producers will become even more significant.

Because of the labor cost advantage and the subsidies, Mexico's citrus production and harvesting costs are less than half the costs in Florida. The Agricultural Attache of the U.S. Embassy in Mexico reports that the combined costs of grove care and harvesting in Mexico were $1.67 per box in 1988-89 compared with costs in Florida of $3.91. The relative cost advantage explains the rapid expansion of the Mexican industry in recent years. More importantly, the production and harvesting cost advantage is expected to increase in the years ahead, giving Mexico even more opportunity to expand orange production. Clearly, orange production can be expected to continue to increase for at least the next five to ten years, as 45% of the total acreage in Mexico is now non-bearing. In fact, the Food and Agriculture Organization (FAO) suggests Mexican orange production will reach 2.6 million metric tons by the year 2000, some 111.8% above the annual average of the 1984-86 period. Industry observers suggest that a disproportionate share of this expected growth will likely be in processed product, because the domestic fresh market needs are largely fulfilled. More of the Mexican orange crop will be processed in future years, with almost all the additional volume being shipped into export markets.

The proposed FTA comes at a time when world orange and orange juice production is expected to expand. The FAO projects orange production to be 62.4% greater in the year 2000 than production in the mid-1980's. A significant portion of the increased volume is expected to be exported as orange juice.

The increase in world orange juice production is expected to lead to prices much lower than have prevailed in the 1980's. Given the current market expectations, Florida citrus producers are barely expected to cover costs of production for the foreseeable future.

A reduction in the U.S. citrus tariff structure would exacerbate the expected impact of growing world supplies on the profitability of the U.S. citrus industry. Mexico will become an even larger supplier of orange juice to the U.S. market, because of the economic incentive Mexico would realize from a tariff reduction. Mexico will have to lower its U.S. export price for orange juice below levels currently anticipated as a result of its increased supplies, forcing Florida to lower its orange juice prices because of the competitive nature of the U.S. and world orange juice markets. At these lower prices, Florida citrus producers will not be able to recover production costs and will in the long term be forced out of business.

The U.S. citrus industry competes in an unfair market situation because of the oligopolistic organization of the Brazilian citrus industry in combination with the government subsidies. Duty reductions on imported citrus products from Mexico would compound the problem the U.S. industry faces.

VII. Conclusion

Including citrus in a U.S.-Mexico FTA will offer significant long-range benefits to Mexico's citrus industry, creating severe adverse consequences for the U.S. citrus industry, and the Florida citrus industry in particular. This conclusion is consistent with the International Trade Committee's findings recently presented to the Committee. The proposed U.S.-Mexico FTA creates no export opportunities for U.S. citrus and citrus products, but it provides substantial growth opportunity for Mexican citrus juice exports. Moreover, a U.S.-Mexico FTA will mean higher returns for Mexican citrus producers, and significantly lower returns for U.S. citrus producers. With respect to citrus and citrus products, the proposed U.S.-Mexico FTA is a one-sided deal which will likely devastate the Florida citrus industry.

While the Florida citrus industry agrees that the U.S. should have an embracing trade enhancement treaty with Mexico, we strongly encourage that the agreement acknowledge inherent differences among the various industries affected by such an agreement. Although many industries will benefit from this agreement, others will be damaged. Some industries are critical to regional and national economies and some are not. Given these types of fundamental differences, it is difficult to see why each industry must be treated the same way.

For the foregoing reasons, we strongly urge that any free trade agreement with Mexico exclude citrus and citrus products. We would also urge that, before any agreement is negotiated, an assessment be made that would take into account U.S. labor, environmental, health and safety costs; Mexican subsidies; and third-party implications.

We thank the Committee for considering our views. We are available at the Committee's convenience to answer any questions or provide additional information on this subject.

Respectfully submitted,

Dan L. Gunter,
Executive Director
Florida Department of Citrus

Bob Crawford, Commissioner
Florida Department of Agriculture & Consumer Services

Clifford C. Beasley, Jr.,
Executive Vice President
Florida Citrus Processors Assoc.

Bobby F. McKown,
Executive Vice President
Florida Citrus Mutual

Douglas C. Bournique,
Executive Vice President
Indian River Citrus League

Richard Kinney,
Executive Vice President
Florida Citrus Packers

Ron Hamel,
Executive Vice President
Gulf Citrus Growers Association, Inc.

James T. Griffiths,
Managing Director
Citrus Grower Associates, Inc.

BEFORE THE
COMMITTEE ON WAYS AND MEANS
UNITED STATES HOUSE OF REPRESENTATIVES

In the Matter of Hearings on -	:
	:
UNITED STATES - MEXICO ECONOMIC RELATIONS	:
	:

STATEMENT OF OPPOSITION
TO THE PROPOSED INCLUSION OF CITRUS AND CITRUS PRODUCTS
IN THE UNITED STATES-MEXICO FREE TRADE ARRANGEMENT (MFTA)
BY
FLORIDA CITRUS MUTUAL

This statement presents the views of Florida Citrus Mutual (FCM) in opposition to modifications to U.S. tariff treatment of citrus juices, fruit and other citrus products under a U.S.-Mexico Free Trade Agreement (MFTA). Most of the duties on these products are specific rates, therefore the incidence of tariff duties falls when import prices increase; conversely the incidence of tariff duties increases in response to an onslaught of low, unfairly priced merchandise from abroad. The present duties thus serve both U.S. producers and consumers well.

The position of FCM, and the views set forth below, are supported by a majority of the citrus growers, packers and processors of the United States. In addition to the members of Florida Citrus Mutual, this position represents the views of 7 other major farm and processor groups: California Citrus Mutual, the Gulf Citrus Growers Association, Citrus Grower Associates, the Florida Citrus Packers, the Florida Farm Bureau Federation, the Indian River Citrus League, and the Florida Department of Agriculture and Consumer Services.

In all, there are approximately 14,000 citrus growers in the State of Florida, and about 22,000 growers across the United States. The parties on whose behalf this statement is made represent virtually all U.S. growers of oranges for processing into frozen concentrated orange juice (FCOJ) -- as well as the industry that grows and processes other fresh citrus and citrus products.

In this regard, we would note that in its report to the President's Special Trade Representative on the "Likely Impact on the United States of a Free Trade Agreement with Mexico", Investigation No. 332-297 (USITC Pub. 2353), the United States International Trade Commission indicated that for many fresh and processed fruits and vegetables -- <u>particularly citrus crops and winter vegetables</u> -- "U.S. growers .... are expected to experience losses in production, particularly growers in Florida, California, and other warm-climate States who compete <u>directly</u>. Processors of these crops are also expected to experience production losses" (USITC Pub. 2353, Executive Summary, at xii).

In addition to some 22,000 growers, a large United States workforce will also be vitally and adversely impacted if citrus is included in the proposed MFTA. Approximately a quarter of a million people are directly employed in the citrus industry in the United States; many more are indirectly employed in related activities. In Florida alone, 70,000 persons are directly employed in production. About 74,000 persons are indirectly employed, therefore, the livelihood of some 144,000 persons in Florida is at stake. For many, there are few employment alternatives.

The thrust of the consideration in this initiative is the

question of interrelationship between the United States and Mexico. It is the strongly held view of this industry, however, that it would be misleading in the extreme not to take account of the serious situation in our U.S. citrus industries as a result of recent world wide developments in this sector and the implications of these developments for the proposed agreement with Mexico.

RECENT FOREIGN PRODUCTION INCREASES, INCLUDING THOSE IN MEXICO, HAVE BEEN MASSIVE AND ARE DESTABILIZING THE U.S.INDUSTRY

First, it should be recognized that Mexico is a part of the massive growth in the foreign production of citrus and citrus products (particularly of oranges and orange juice) in the past decade. There have been enormous increases in production in Central and South America (including Mexico), in the Mediterranean basin countries, in the Near and Far East, and in South Africa. Such increases are occurring in virtually every foreign area with suitable climactic and soil conditions for the growing of citrus and the production of citrus products.

Second, in nearly every significant growing sector outside the United States, this enormous growth is resulting in surpluses which greatly exceed indigenous home market demand. Consequently, these surpluses are being exported as fruit or juice, with adverse impacts on the U.S. industries. U.S. exports are being lost, long term, and U.S. imports have been increasing sharply --absolutely and relative to U.S. output. Since the early 1980's the once favorable balance of U.S. trade in citrus has evaporated, and the U.S. trade deficit in these products has been increasing.

Third, nearly every foreign country with growing surpluses of fruit has been employing a wide range of complex promotional devices -- difficult to identify or quantify in their entirety-- to encourage exports and to discourage imports. The net result is to make the large U.S. market for citrus, which is without artificial trade barriers or export incentives, a natural target for growing foreign surpluses. These developments are already causing havoc in the United States citrus industries; the inclusion of citrus in the MFTA would acerbate the situation.

Recent changes in the relative position of the United States and of foreign countries in the production and processing of oranges -- by far the most important citrus crop -- are illustrated in the tabulation below. While comprehensive data are not readily available for other citrus products, similar developments are known to be occurring for them.

Oranges: Changes in Production of Fruit and Fruit Processing In the United States and Foreign Countries, from 1982/83 Through 1988/89

(1,000 Metric Tons)

Orange production:		
United States	-636	-7%
Other countries	+ 5,041	+26%
Fruit processing:		
United States	-156	-2%
Other countries	+ 3,644	+49%

Source: Compiled by the Citrus Administration Committee, Lakeland, Florida, from various sources.

As the tabulation shows, during just the last five crop years, total production of oranges outside the United States rose

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by 26 percent. Production in the United States fell 7 percent in the same period. This decline is directly related to the impact of increasing United States imports of orange juice from a large number of countries, including Mexico, and from the loss of United States exports.

RECENT DEVELOPMENTS IN MEXICO CLEARLY DEMONSTRATE THAT THE INCLUSION OF CITRUS IN THE NFTA WILL RESULT IN A DEVASTATING FLOOD OF IMPORTS FROM MEXICO AND CAUSE SERIOUS INJURY TO THE U.S. CITRUS INDUSTRIES OF THE UNITED STATES

Dynamic changes are also occurring in citrus in Mexico and contributing to the further growth in world surpluses. Its exports are increasing sharply -- particularly to the United States. It is beyond question that the arrangement will contribute further to the growth in Mexico's exports and result in substantial, and damaging increases in U.S. imports from that country.

CITRUS ACREAGE AND CITRUS TREES IN MEXICO ARE INCREASING SHARPLY

Estimates indicate that currently a total of 707,000 acres in Mexico is devoted to citrus. Over 90 percent of that is in oranges. Highlights of orange operations of Mexico are shown in the tabulation below. Based on preliminary crop forecasts for 1990, the U.S. Department of Agriculture indicates that the planted orange acreage in Mexico will have increased by 33 percent in the last two years. In 1990, the total harvested orange crop in that country (363,000 acres) approximated, for the first time, the total number of bearing acres for oranges in Florida (389,000) -- the lifeblood of the Florida citrus industry.

Orange Highlights For Mexico

	1988	1989	1990	% Change
		1/.		
		Acreage		
Total Acres	481,845	558,446	642,460	33%
Harvested	276,752	313,817	363,237	31%
		Number of Trees		
Total Trees	48,790,000	52,800,000	64,000,000	31%
Non-bearing	23,240,000	22,800,000	30,000,000	29%
% of Total	48%	43%	47%	
Fruit processed-(Met.Tons)	344,000	482,000	500,000	45%
		Juice (Metric Tons)		
Production	33,712	46,992	48,000	42%
Exports	32,740	45,492	45,800	40%

1/. Data for 1990 are based on USDA forecasts.
Source: U.S. Department of Agriculture.

As the tabulation indicates, the harvested orange acreage in Mexico has increased by approximately 31 percent since 1988. It is noteworthy that the planted orange acreage in that country now

is beginning to approach that of the United States although Mexico's population and demand for these products is far lower than in this country.

While there are many small growers, many of whom operate on state-owned land, essentially rent free, the trend in Mexico clearly is toward large, efficient, and privately owned commercial operations. Trade reports indicate foreign investment interest.

In Mexico, the total number of trees has likewise increased sharply -- over 30 percent -- since 1988. While the Government has announced that it intends to eliminate most subsidies to agriculture, the past actions to encourage the growth of citrus and citrus products in that country will continue to impact U.S. trade for years to come.

Over half the trees there are still young and non-bearing. Once they begin producing fruit -- in three to four years --they can be expected to have a useful life of some twenty to twenty five years, therefore, for nearly a quarter of a century, the United States industry -- with or without duty reductions --will continue to be confronted by the effects of past subsidies that in effect continue to provide an artificial stimulus to Mexico's production and exports and to disadvantage the U.S.industries concerned. Even in the unlikely event that there are no improvements in Mexican crop yields, these data indicate that the amount of fruit from the non-bearing trees could virtually double Mexico's fruit output within the next few years. Based solely on the foregoing information on the number of non-bearing trees, substantially increased imports from that country in the near future are a certainty.

Citrus acreage in Mexico is widespread so that a short crop in one area tends to be made up, or offset, in other areas. Many farm operators are reportedly shifting to citrus from coffee plantings in low yield areas and from grains and oilseeds and other low valued crops to higher valued export-oriented fruits and vegetables. According to the Department of Agriculture, Mexico currently has 6 million hectares (15 million acres) of irrigated farmland -- equivalent, according to the Department, to only 40 percent of the potential of 15 million hectares (37 million acres). Currently, growers are said to pay only 30 percent of the real water cost, and it would appear that some of this acreage could be converted to irrigated citrus operations where necessary.

Growers reportedly have access to credit facilities on favorable terms, and the National Institute for Agriculture Research (INIA) has developed a program for yield and quality improvement. CONAFRUT, the public organization dealing with production and marketing of major fruits, also furnishes technical assistance for the improvement of cultivation.

A DRAMATIC GROWTH IN PROCESSING OPERATIONS IN MEXICO ALSO INDICATES PROBABLE SUBSTANTIAL INCREASES IN IMPORTS OF PROCESSED PRODUCTS FROM THAT COUNTRY

A growing share of the fresh oranges harvested in Mexico is being devoted to fruit for processing, and subsequently for export. As shown in the foregoing tabulation, the amount of Mexican fruit that is devoted to processing has been increasing markedly (about 45 percent since 1988). Virtually all juice is exported -- mainly to the United States.

Just since 1988, juice production and juice exports rose 42% and 40 percent, respectively. They have tended to establish new records each successive year since 1985.

Recent reports of the U.S. Foreign Agricultural Service indicate that Mexico has substantial, recently-increased, but underutilized processing capacity - - established in anticipation of the growth in fruit production and in the market for processed products (particularly exports). Some old plants have been rehabilitated. Processors have made large investments in new state-of-the orange juice plants during the past few years so that as fruit output grows, "larger amounts of oranges will be devoted to juice production."

There are reportedly now 22 major juice factories in Mexico with a total evaporating capacity of about 578,000 pounds of water per hour -- or over 870,000 metric tons of fresh fruit per season. These plants are believed to be modern and efficient and able to handle anticipated fruit increases for processing and for increased exports of the processed product. In addition, there are 7 additional plants of lesser size, which probably could be expanded if conditions warrant.

Indications from the trade are that underutilization of processing capacity in Mexico has been attributable in part to past cartel-like arrangements under which capacity has been expanded in anticipation of future increases in the demand for juice -- particularly for export. It is expected that increasing quantities of fruit will be utilized for processing--particularly for the growing exports to the United States. Duty-free treatment for imports from Mexico would hasten this process.

MEXICAN EXPORTS HAVE BEEN INCREASING DRAMATICALLY AND WOULD BE ACCELERATED IF CITRUS WERE INCLUDED IN THE FREE-TRADE AGREEMENT

Mexico is the world's third largest foreign producer of oranges and clearly has substantial existing growing and processing capacity, and growth potential, to export increasing quantities of both fresh and processed citrus to the United States. There is no question but that it will exploit that potential to the fullest if citrus is included in the arrangement. With but limited domestic, or home market demand, Mexico's increasing output is obviously geared to export. The MFTA proposal has the potential for an enormously destructive impact on the citrus industries of the United States.

The impact of Mexico's export trade on U.S. producers would undeniably be significantly greater than a static evaluation of the numbers alone would indicate. Where the products of Mexico compete directly with U.S. exports, its growing surplus will displace U.S. products directly. Mexico has developed significant citrus outlets in the United States, Canada, France, and Germany. Mexican exporters, with the assistance of the Government, are also targeting trade potentials in Asian markets, such as Hong Kong and Japan. Mexico's Pacific ports have lowered transport costs sufficiently to allow them to be competitive in Asian markets with oranges from the United States.

In addition, there is a high probably of a diversion of exports from other countries through Mexico if citrus is included in the duty-free arrangement. The country of origin of orange juice is difficult to establish. Cross-country transhipments are common, and growing; the Department of Commerce indicates that 'scarcely a day goes by' without questions rising respecting certificates of origin. Duty-free treatment for Mexico would encourage such shipments and inevitably aggregate the certain increase in imports from that country - and would worsen the price effect in the United States -- both directly and indirectly.

Such trade would only be attracted by the lower prices that the arrangement would inevitably induce. The increased imports

of juice alone would significantly limit the demand for U.S. fruit for domestic processing and depress fresh market prices in turn.

Recent trends in the imports from Mexico confirm the judgement that imports will increase sharply. Mexican shipments to the United States have risen virtually without interruption from 9 million gallons in 1985 to 45 million gallons (single strength basis) in 1989 -- a five-fold increase. In the first 10 months of 1990, imports of 70,393,000 gallons were almost double the level of the same period of 1989, and may reach a new record of 84,000,000 gallons for all of 1990.

Mexico already provides about 12 percent of total U.S. imports of orange juice. To a large extent the 9-fold increase in imports since 1985 has been price based. In the first 10 months of 1990, for example, the average unit foreign value of imports of orange juice from that country was 69 cents per gallon (single strength equivalent) compared with $1.53 per gallon in the same period of 1989. Brazil is by far the leading U.S. supplier and its export prices also declined precipitously in this period.

Massive value decreases of this magnitude obviously have had a devastating effect on U.S. market prices -- which also declined as a result of this competition. They have reached break-even levels, or less, for many U.S. growers because of the large volume of low-valued imports.

There can be no compensating increase for U.S. exports. No export markets for citrus of significance for the United States would materialize from the arrangement -- either in Mexico, or elsewhere . Mexico can be expected to receive modest amounts of fruit from the United States -- consisting principally of contiguous border trade for fresh use and/or processing in years when regional crops are down in that country because of the weather -- but it is undeniable that the benefits will all flow (for Mexico) in one direction both because of that country's growing surplus and its low operating costs.

Overall, the United States has a negative trade balance with Mexico in citrus. U.S. exports to that country are negligible. In recent years citrus imports from Mexico have exceeded U.S. exports to Mexico by a ratio of over 40 to 1. The U.S. trade deficit will only increase if citrus is included in the MFTA.

THE IMPACT OF THE PROPOSAL ON THE DOMESTIC CITRUS INDUSTRIES WILL BE EXCEPTIONALLY SEVERE

For all the foregoing reasons, it is fair to say that the conclusion of the U.S. International Trade Commission respecting the adverse impact of this proposal for citrus is fully justified. We believe that it would be manifestly unwise to include citrus and citrus products in the MFTA.

In this regard, it bears repeating that we believe, strongly, that it would be ill-advised to ignore the world environment in citrus in considering this proposal. The Food and Agriculture Organization of the United States, in its studies of this agricultural sector, concludes that foreign surpluses of oranges over home market demand will double in the next 10 years. These surpluses will seek export outlets either as fruit and/or juice, and, as a result, the organization predicts a massive decline in prices of citrus and citrus products within the relatively near future. The price data cited above indicates that this decline has already begun.

The huge increases in production that have occurred in practically every foreign country with a suitable environment for citrus -- significantly stimulated or encouraged by governmental

programs, at both national and local levels -- increases the likelihood of further world price depression and of increased exports by countries with huge surpluses in excess of home demand.

As a corollary, many of these countries are taking measures to insulate their local industries from outside imports. EC growers, for example are tireless in their efforts to countervail, or otherwise restrain, imports of concentrated juice from lower-cost producers abroad. At the same time, they reportedly seek a reduction, or elimination, of the rate preferences applicable to the imports from countries with which the Community has signed preferential agreements (such as Israel and Morocco). U.S. exports are disadvantaged by such measures.

Trade disruptions of this nature cause exporters to seek alternative outlets. The large U.S. market, without artificial trade restraints, is clearly a logical alternative. The United States already receives imports from over 30 countries -- and it is worth noting that some of this trade represents transhipments from a number of suppliers without indigenous fruit.

Particularly in the case of large U.S. foreign suppliers, such as Brazil, those countries will defend their U.S. market position with price reductions against the Mexican imports with further disastrous results for U.S. growers and processors.

Many of the important foreign producing countries employ a wide range of techniques to assist their industries and the exports of citrus. Such measures include production and export subsidies, assistance in industry restructuring and crop improvement, tax rebates, marketing programs, exchange and price manipulation, unfair pricing, and the like. Brazil, for example, which is the world's largest producer and exporter has twice been found to have caused injury to the U.S. industry by dumping and by the unfair subsidization of its exports.

While many of these activities have unfair trade implications, the practices are difficult, costly, and time consuming to identify and pursue. For perishable agricultural products, which generically are subject to quick, and wide, supply and price swings during a single crop year because of weather or other natural factors, the unfair trade statutes tend to be inadequate. Final decisions under these measures often come too late for effective remedial action against severe damage already, and quickly, sustained in the case of crops that are subject to spoilage and that must be marketed and/or processed almost immediately after harvest. Moreover, it should be noted that U.S. growers do not have access to Section 22 of the Agricultural Adjustment Act, as amended, because there are no agricultural support programs for citrus.

Under present world conditions, substantial dislocations within the U.S. industry have already occurred as a result of losses of export markets, from direct imports and transhipments of products of foreign origin, and from unfair pricing and other non-competitive practices. Each of the major U.S. growing areas have lost substantial acreage because of the loss of export markets and increased imports. While a significant part of this loss in acreage has been offset by increased efficiencies and improved crop yields in the United States, this ongoing improvement process is costly and there are to be limits, at least near-term. Meantime, foreign efficiencies and yields are being improved also, with strong Government, and local, support.

None of the U.S. growing areas of the United States is in a position to sustain a profitable operation in the light of the import onslaught that would occur if citrus were included in the MFTA. Many U.S. growers and processors are already down to break-even levels, or less, because of increasing, low-priced

imports of citrus and citrus products.

The impact upon Florida would be especially severe. In the recent past, the industry has made substantial new investments in new groves in freeze-free zones. These groves must be carried out-of-pocket, at substantial cost, for three to four years until the harvest of first fruit. At the time this fruit comes on the market, the impact of the imports entering as a result of the trade initiatives under consideration would begin to have its greatest impact.

There would be little increase in the aggregate demand for citrus as a result of lower-priced imports from Mexico. Most households already are significant consumers of citrus so that the price elasticity of demand at the consumer level tends to be low. On the other hand, because the cross-price elasticity of demand for domestic and imported orange juice at the wholesale level is high, increased imports at reduced prices will cause substantial further displacement of U.S. output at this, the first-trade, level. Markets will be lost. Producer prices will be further depressed or suppressed. Profit margins will decrease or evaporate because of lower U.S.output, lower revenues, and higher costs per unit of output.

In Florida, there already have been significant grower exits as a result of increasing costs, import competition, price suppression and/or depression relative to costs, and difficulties attendant to farming. If U.S. import duties are included in the arrangemept, there can be no question but that many additional growers would discontinue operations.

The honest concern in Florida is that the survival of the industry is at stake in this measure. Given the situation abroad, the growing level of imports (absolute and relative), and increasing domestic costs, it is probable that the orange juice industry would be seriously, probably mortally, injured.

As we have indicated, Florida Citrus provides a livelihood to 144,000 persons for whom there are few meaningful employment alternatives. At the grove level, total capital investment in Florida is conservatively estimated at about $8 billion. These figures for Florida alone would be magnified many times if the impact of the MFTA proposals upon growers in Texas, Arizona, and California are added. Prospective losses to the respective economies, and to the tax bases of the communities and states in question, will also be enormous and cannot be logically discounted.

CONCLUSION

For the foregoing reasons Florida Citrus Mutual and others in support of this position submit that a free trade agreement with Mexico that includes citrus will have a severe adverse impact on the United States citrus and citrus product industries and threaten their viability and continued existence. We urge that citrus juices, frozen concentrates, and all fresh and processed citrus products be excluded from any duty-free arrangement with Mexico.

Respectfully submitted,

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STATEMENT OF WAYNE HAWKINS, FLORIDA TOMATO EXCHANGE

The notice for this hearing states that a study by the U. S. International Trade Commission, entitled "Likely Impact of a Free Trade Agreement with Mexico on the United States," will provide a factual analysis as background for the hearing. I have not seen the full report, however, a copy of the Executive Summary[1] sadly confirms what we suspected: The Florida tomato producer will be the most adversely affected. The summary supports an earlier government report which concluded that in the first year of an FTA with Mexico the Florida tomato industry will lose 25 percent of its production (approximately $125 million) and 8,700 workers.[2] This report predicts that the Florida tomato industry alone will lose a quarter of its production; small and mid-sized businesses will close their doors; thousands of workers will lose their jobs; communities will be seriously affected. When you include other winter fruits and vegetables, the figures are staggering.

I am not talking in the realm of possibilities or probabilities or hypothetical situations. I am telling you that this industry will be hurt and hurt badly if our concerns are not addressed; and, we are not alone. There are many, many other commodities grown in the United States which compete directly with imports from Mexico. Those farmers, those businesses, those workers, those communities will be hurt. Twenty-five percent of the United States fruit and vegetable industry that would be affected could total more than $15 billion in losses each year. Tens of thousands of jobs will be lost. This is the reality of the situation we face.

The tremendous push by the Administration for fast-track authority on this issue is totally unjustified. Ambassador Hills and others argue that fast-tract authority is needed so that "extraneous" issues will not be made a part of the discussion. Not only is this a convenient "out" to exclude relevant but contentious issues but it implies Congress (and the trade committees in particular) cannot deal with these issues in a responsible manner. For example, Ambassador Hills applauds Mexican liberalizations on goods, services and investment; yet, she won't permit discussions on free trade in services which would include the free flow of legal workers between Mexico and the United States.[3]

Ambassador Hills indicates she needs the "procedural advantages of fast-track authority," [because] the practical impediments to negotiating an agreement would be all but insurmountable.[3] Nowhere does she identify a single impediment which would be of any concern, much less insurmountable. The Florida tomato industry doesn't wish to be labeled an impediment, but we believe the fate of our industry and the real people affected by an FTA ought to be debated in a public forum in advance of an agreement and not by non-elected government officials in secret behind closed doors. Contrary to Ambassador Hills' comments, she has not sought our advice and consultation nor a partnership with us, despite the fact that our industry has a critical stake in the outcome of these negotiations.

The fundamental issue at this time is whether Congress should approve or disapprove fast-track procedures for these negotiations. The Exchange strongly believes that Congress should not approve the fast-track approach. There are a number of reasons that support our position; but the most important is that our industry and others will be seriously harmed by an FTA with Mexico and, under fast-track authority, our concerns will not be properly addressed. Once an agreement is reached, Congress will not have an opportunity to help us or even address issues that are being swept aside.

It is clear that the Administration wants negotiations with Mexico to begin in the spring and be completed this year, with or without fast-track authority. What's the rush? We haven't had an FTA with Mexico for many years. Why does it have to be completed "over-night" without totally looking at some of the possible pit falls?

Given the great disparity between the economies of the United States and Mexico, it is unreasonable for Congress to permit fast-track authority. The differences in some instances are so great you can hardly compare them. The

addition of Canada into the negotiations further complicates the negotiations. Although we have a free trade agreement with Canada, they continue to impose new, nuisance type trade requirements that hinder trade with their country on perishable agricultural products. With Canada involved, it will require more, not less, involvement in the process, and approval of fast-track authority will not permit this.

Congress also has not assessed the impact of the negotiations on other less-developed countries which have expressed concerns about the impact of an FTA with Mexico on their economies. These are only a few of the sound reasons why Congress should not grant fast-track authority and there are many more. On the other hand, there are few sound reasons for granting fast-track negotiations and they are clearly outweighed by the concerns raised herein.

The Exchange finds it very hard to see how agriculture can derive any benefits from an FTA with Mexico. What has been proposed and the method recommended to attain the agreement will do irreparable harm to the Florida tomato industry. As a practical, common-sense matter, the Florida tomato grower is as close to a free trader as anyone. He is not subsidized or is little protected by the United States government. He does not receive big loans from the government, nor does he get millions of dollars not to grow his crop or to assist in selling his crop overseas. Basically, he pays his own way. He uses the most up-to-date equipment and techniques and he is always looking for ways to operate more efficiently. He does an excellent job by all objective standards despite the fact that the U. S. government burdens him with many costs his Mexican competitor does not have. We estimate these costs to be at least 25 percent of the total costs of production. These costs are for worthy things, such as minimum wages, social security, unemployment insurance, sanitary worker conditions, adequate housing for labor, etc. Paying these costs is part of doing business in the United States, but the Mexican producer pays only a small fraction of these costs. How do you reconcile the two? Some say, "Phase in the FTA over ten years." This simply delays the time period and does not address the issue.

The Exchange also notes for the record that these negotiations violate the letter and the spirit of the recently passed Farm Bill as they pertain to its members and to those similarly affected in the U. S. fruit and vegetable industry. More specifically, for the first time ever the Farm Bill contained a fruit and vegetable title. Congress found that the maintenance and expansion of existing markets for United States producers of fruits and vegetables is vital to the general economy of the United States and is an integral part of this nation's farm policy.[4] Clearly, the proposed FTA is contrary to this statute. Surely, it is fair for those in the U. S. fruit and vegetable industry to expect Congress not to repeal this statutory provision simply because some non-elected officials want to rush the FTA through Congress. We think we're entitled to participate in the negotiations and we expect Congress to enforce that right. We equate this event to a legal taking for which the United States Constitution would give us at least a hearing. We expect Congress to enforce that right for us.

Within the past 90 days, the Exchange has provided evidence to both the U. S. Department of Agriculture and the U. S. Trade Representative's office concerning two recent incidents in which officials of the Government of Mexico have refused entry into Mexico of any tomatoes produced in the State of Florida or in the six largest tomato producing counties in California for spurious reasons. Despite the fact that these incidents occurred several months apart, Mexico claimed they were mistakes and wouldn't occur again. The Exchange strongly suspects that this is not the case. In fact, we find such incidents all too common to the point that shipping tomatoes to Mexico has all but stopped. Ambassador Hills acknowledged last June before the Committee and this month again that "a restrictive import licensing system still applies to about 40 percent of the value of U. S. agricultural exports to Mexico, including . . . fruits and vegetables."[3]

The fact is Exchange members specifically have been the victim of unfair trade practices by Mexico; the fact is, the Trade Representative cannot say with any assurance that such unfair trade practices won't happen again; the fact is, if Congress grants fast-tract authority for negotiations of an FTA with Mexico, our industry and its elected representatives will be unable to participate in those discussions; and, the fact is, our industry -- real people, employers, employees, real businesses, real communities -- will be seriously hurt; and, it's not clear why.

There has been no showing of the need to rush forward with fast-tract negotiating authority. We think the burden should be a "compelling interest" standard. There simply isn't any legitimate reason why these negotiations can't proceed normally; and, there are many compelling reasons why they shouldn't go forward on a fast-track basis.

The recent summary of the ITC report[1] confirms that our industry will be hardest hit. It states that elimination of tariffs and non-tariff trade barriers (NTBs) under an FTA would generate a significant increase in U. S. imports from Mexico and a moderate increase in United States exports to Mexico. It also states that about 60 percent of the agricultural imports from Mexico now enter free of duty. In other words, Mexico already has a tremendous advantage, so why is the United States even considering an agreement that will put thousands of American citizens out of work? Surely all of our government officials can't be naive enough to believe that we will obtain any lasting benefits from Mexico. They will find a way to circumvent any rules or regulations non-beneficial to their cause -- just like they have in the past.

The ITC report[1] refers to Marketing Orders as a NTB that affects agricultural trade with Mexico. Nothing could be further from the truth. Marketing orders are self-imposed rules which allow a commodity group to regulate themselves in order to provide the consumer with a better quality product. U.S.D.A.'s interpretation of Section 8(e) of the Agricultural Marketing Agreement Act of 1937, as amended, totally obliterates the intended "golden rule" amendment by reducing any requirements on imports to "minimum" grade and size standards. This gives Mexican imports a definite advantage over domestic producers and once again demonstrates the dual standards imposed by the United States government -- one for domestic producers and another less restrictive standard for imports. This is not a NTB. It is another example of "unfair" trade practices that forces the Florida tomato producer to compete on an unlevel playing field.

A vote for an FTA between Mexico and the United States is a vote for the end of Florida agriculture as we know it today. It will force optimistic entrepreneurs to move to foreign countries to produce a crop. Thousands of unskilled workers on the lower end of the ecosystem will be forced out of work. Can the United States afford this? I don't think so.

Today the United States depends on the whims and wishes of foreigners to supply us fuel. Should we take the same approach on food? I don't think so. The average American household spends 15 percent of its budget on food compared to 21 percent in Japan, 40 percent in the USSR, and 42 percent in Greece. Don't ruin it. Don't put the Florida farmer out of business and then complain about prices. After the freeze in Florida last year, we depended on Mexico to supply winter vegetables to the United States. The price for fresh market tomatoes rose to $40.00 a box wholesale and sold in excess of $3.00 per pound at retail markets. This was a previously unheard of figure. Put Florida out of business and this could become the normal situation instead of an extreme exception.

The Exchange will gladly supply supporting evidence or documentation to any of the comments made in this statement if so desired. The Exchange thanks the Committee for providing them the opportunity to comment on this important issue.

FOOTNOTES REFERRED TO IN STATEMENT

[1] Summary of USITC Inv. No. 332-297, "The Likely Impact on the United States of a Free Trade Agreement with Mexico."

[2] Working Papers, Commission for the Study of International Migration and Cooperative Economic Development, The Potential Effects of Labor-Intensive Agriculture in Mexico on United States-Mexico Migration, by Gary D. Thompson and Philip L. Martin, December 1989.

[3] Ambassador Hills' testimony before the Committee on Finance, U. S. Senate, February 6, 1991, pages 3, 5, 6, 12.

[4] Title XIII, Section 1303, Food, Agriculture, Conservation and Trade Act of 1990.

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U.S.-MEXICO FREE TRADE AGREEMENT (FTA)

In the footwear area, the principal effect of a U.S.-Mexico FTA would be the elimination of duties on shoes imported from Mexico. This duty reduction would offer U.S. consumers substantial savings, particularly in the rubber/fabric area where duties on shoes are in the 48-67% range. As is explained below, the duty advantage would have minimal affect on U.S. shoe production and would help Mexico capture some of the import market that is presently dominated by China.

The Footwear Distributors and Retailers of America represents the nation's chain shoe stores and the resources that supply them. Its members operate some 20,000 retail units, selling half of the footwear purchased annually in the United States. We support a U.S.-Mexico FTA for the following reasons:

- The duty advantage on shoes produced in Mexico could result in the shift of low cost imports from Asian producers (principally China) to Mexico.
- Since low cost products are nearly all imported today, the shift to Mexico of these products would not result in an increase in imports.
- Since U.S. shoe production is concentrated in higher priced, niche marketed goods, which presently compete successfully against lower priced imports, the FTA should not shift production from the U.S. to Mexico.
- Such duty elimination could help Mexico become a major supplier of footwear to the U.S., a role it does not presently have. Today, Mexico accounts for about 2.3% of total U.S. shoe imports. By contrast, suppliers in the Orient furnish more than 80% of U.S. shoe imports.

LEATHER AND PLASTIC FOOTWEAR

The phased elimination of duties on shoes produced in Mexico would have minimal impact on U.S. production of this type of footwear which, on a dollar basis, accounted for more than 90% of total U.S.-produced shoe sales in 1990 and nearly 90% of all U.S. shoe manufacturing employment:

- Current duties on these products are so low, ranging from 6% to 10% that their elimination would have no impact on the competitive relationship between U.S.-produced and Mexican-produced footwear.
- The vast difference in the average wholesale price of this footwear produced in the U.S., $20.35 per pair, compared to that produced in Mexico, $9.50 per pair, dwarfs the impact of duty elimination (Table I). At an average duty of 8%, duty amounts to a mere $.76 on an average shoe from Mexico.
- Despite lower priced imports (even with tariffs) sales by U.S. producers have increased in recent years because their products have been concentrated in market niches -- brands, servicing, sizes and widths -- where low cost is less important to consumers. Elimination of modest duties would not impact this success (Table II).

RUBBER/FABRIC FOOTWEAR

Duty reduction would stimulate a possible shift in production of this footwear from the Far East to Mexico with little impact on U.S. production. Duties range from 48% on this footwear under $3.00 per pair to 67% on footwear between $3.00 and $6.50 and about 37.5% on higher priced footwear.

As noted, this sector accounts for only about 10% of U.S.-produced shoe sales and manufacturing jobs.

Significantly, the U.S. industry does not compete at the lowest price ranges in this market, which is dominated by footwear from China. China accounted for 58% of U.S. imports of this product in 1990. Nevertheless, U.S. producers have developed successful market niches that are well positioned to remain competitive if a U.S.-Mexico FTA were adopted.

Injection Molded/Machine Made Shoes. About three quarters of U.S. production of this product is made by injection molding -- a low labor, capital intensive process. Since the only advantage of Mexican production would be low labor costs, the FTA creates little incentive for U.S. producers to shift low labor, machine operations to that country. The labor intensive component of a shoe, the upper, is already made in large quantities outside the U.S. -- in the Caribbean or the Orient -- and would not be affected by the FTA.

Vulcanized/Handmade Shoes. The duty elimination for Mexico under the FTA could be a powerful incentive to move highly labor intensive, low priced footwear presently produced in Asia (principally in China) to Mexico. There is presently no U.S. production of this product.

The small amount of higher priced, labor intensive rubber canvas footwear produced in the United States, sells on brand names, such as Converse's Chuck Taylor All-Star, and is not competing on cost. U.S. production of this footwear would not be affected by a U.S.-Mexico FTA. This is clear because foreign production of the same product is today vastly cheaper than the U.S.-made product (even with the duties of up to 67% included) and production has not moved.

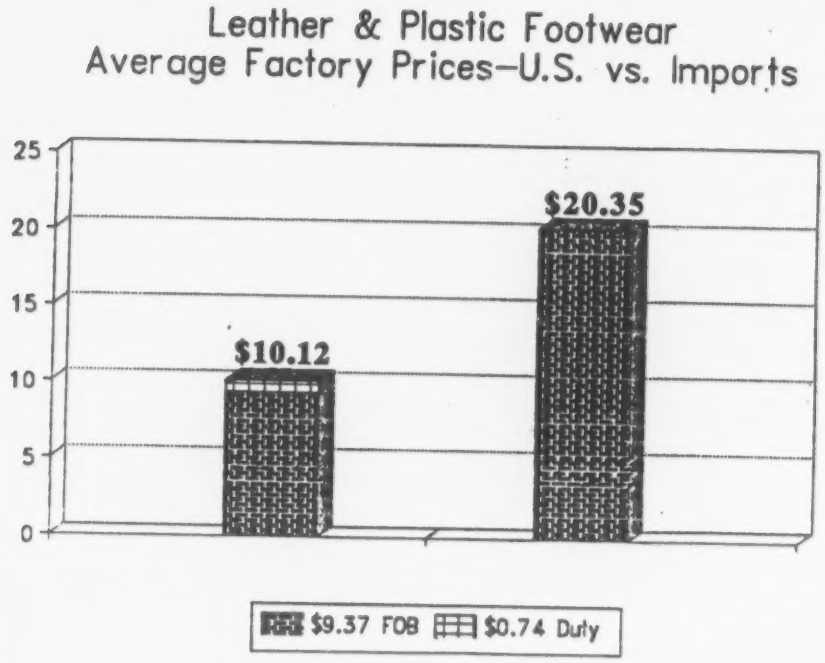
Leather & Plastic Footwear
Average Factory Prices–U.S. vs. Imports
25
20
15
10
5
0
$10.12
$20.35
$9.37 FOB
$0.74 Duty

TABLE I

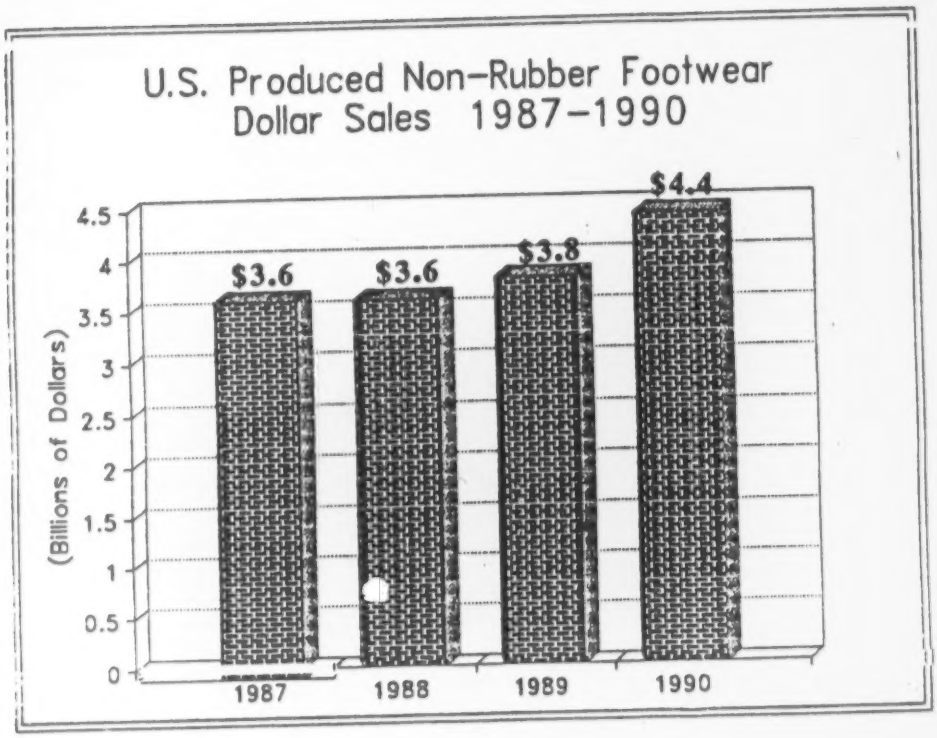
U.S. Produced Non-Rubber Footwear
Dollar Sales 1987-1990
(Billions of Dollars)
4.5
4
3.5
3
2.5
2
1.5
1
0.5
0
$3.6
$3.6
$3.8
$4.4
1987
1988
1989
1990

TABLE II

FDRA member companies operate, under the following names, some 20,000 retail and departments nationwide, accounting for about half the nation's shoe sales annually:

MORSE SHOE INCORPORATED
- Fayva Shoe Stores
- *Bradlees
- *Hills
- *Shopko
- *Allied
- *Biggs
- *Twin Value

THE BUTLER GROUP, INC.
- Dolcis

JC PENNEY COMPANY, INC.

SEARS ROEBUCK & COMPANY

FISHER CAMUTO CORPORATION
- 9 West

WAL-MART QUALITY SHOES
- Wal-Mart Stores

GENESCO, INC.
- Johnston & Murphy
- Jarman
- Hardy
- Journeys
- Factory-To-You
- Flagg
- *Mercantile Stores

SHOWAC CORPORATION
- Crown Shoes
- *Schottensteins Stores
- *Value City Dept. Stores
- *Harts Discount Stores
- *Glosser Bros. Stores
- *Levines Stores
- *Valley Fair Stores

STANDARD SHOE COMPANY

MELDISCO
- *K-Mart
- *Payless Drugs
- *American Fare
- *Makro

THE EDBACKER CO.
- Picway Shoes
- The Shoe Works
- Gussini
- Patrini
- Kathe K

C&J CLARK AMERICA
- Hanover
- Bostonian
- Big Sky

J. BAKER, INC.
- *Ames/Zayre
- *Fishers Big Wheel
- Parade of Shoes
- *Jamesway
- *Stuarts
- *Caldors

SHOE CITY, INC.
- Shoe City Stores

THOM MCAN SHOE CO.
- Thom McAn
- B.O.Q.
- Fan Club

WEINER ENTERPRISES
- Shoe-Town

KINNEY SHOE CORP.
- Kinney Shoes
- Foot Locker
- Lady Foot Locker
- Kids Foot Locker
- Athletic X-Press
- Champs
- Footquarters
- Fredelle

SHOE-TOWN, INC.
- Shoe-Town
- Jordache Outlet
- *NBO

J.S. RAUB SHOE CORPORATION
- J.S. Raub Shoes
- Shoe Spot

EDISON BROTHERS STORES
- Chandlers
- Leeds
- Sacha of London
- Wild Pair
- Bakers
- Burts

PIC 'N PAY STORES
- Pic 'n Pay
- Barett's
- Shoe Faktory
- Shoe World

ENDICOTT JOHNSON
- Father & Son
- Endicott Johnson

VOLUME SHOE CORP.
- Payless Shoe Source
- Volume Shoe Source

*Leased Departments

FDRA FOOTWEAR MARKETING FIRMS AND THEIR PRINCIPAL BRAND NAMES:

SAMSHOE WORLDWIDE CORP.
- Spalding
- McGregor
- Dr. Scholl's
- Faberge'
- U.S.A. Olympic
- Thermo-Kid

B. LEVY & SON
- Pazzo
- Positively Peppers
- D. Evans
- English Walkers
- Hampton Park
- Jaguars
- Soft Ease
- Patrick Ewing Sneakers

E.S. ORIGINALS, INC.
- Voit
- Sergio Valente
- Flintstones
- Coopertone
- Gloria Vanderbilt
- Safety Lights
- I Love Comfort
- New York Street Action
- Sasson
- Regent
- Europrep
- Easy Going

PAGODA TRADING
- Jordache
- Brittania
- Barbie

MERCURY INTERNATIONAL
- Jordache Ath. Footwear
- Franklin Sports
- Chic
- Snoopy

KLAN-POLO, INC.
- Hoops
- Finesse
- Sweetheart
- Playground

LAIRD, LTD.

DYNASTY FOOTWEAR
FOOTWEAR EXPRESS

LEIF J. OSTBERG, INC.
- Mitre
- Hat Trick
- Vision
- Huffy

INTER PACIFIC
- Laguna

GRAND IMPORTS
- Jordache
- Larado
- Durango

MARQUESA
- Belja - Flor
- Silvana

MSF CORPORATION
- Excel
- Northern Trail's
- Kickerino's
- Biarritz

CELS ENTERPRISES
- Prima
- Chinese Laundry
- Cels
- Barbaro
- Ammano

C.O. LYNCH
- Panda
- Pax
- Rod & Gun

ANGEL-ETTS OF CALIFORNIA
- Teenage Mutant Ninja Turtles
- Cabbage Patch Kids
- Countess

L.A. GEAR

DESA SHOE, INC.

RICHOK INTERNATIONAL

CYPRESS ENTERPRISES

JIMLAR CORPORATION

GREEN MARKET SERVICES

INT'L. SEAWAY
- Lydico
- Intrigue
- DP, Fit for Life

OLEM SHOE CORP.
- Aldo Rossi
- Mauro Pisani

TOPLINE IMPORTS
- Wildrice
- Pillows
- Global Exchange

CIRCLE S. BOOT
- Paolo Fellicice
- Raphael Vittorio

PALLMARK/CHEROKEE
- Cherokee
- GI Joe
- My Little Pony
- No Frills

INTERSHOE, INC.
- Nickels
- Jazz
- Paloma
- Via Spiga
- Glace'e

MILLFIELD TRADING
- No Excuses
- Chaus
- Marc Albert

BBC INTERNATIONAL
- Bonjour
- OshKosh
- Playschool

TRADE WINDS
- Nicole

K-SWISS, INC.

BENNETT IMPORTING

SEBASTIAN IMPORTS

DAYTONA, INC.

LEE INTERNATIONAL

STATEMENT OF FOOTWEAR INDUSTRIES OF AMERICA, INC.

U.S.-MEXICO FTA

TO THE

SUBCOMMITTEE ON TRADE OF THE HOUSE WAYS & MEANS COMMITTEE

FEBRUARY 25, 1991

I. INTRODUCTION

This statement is presented on behalf of Footwear Industries of America, Inc. (FIA), a trade association that represents U.S. manufacturers and distributors of nonrubber footwear and a substantial portion of their suppliers. The domestic nonrubber footwear industry is located in 38 states where it operates in over 450 footwear manufacturing establishments.

FIA opposes an FTA with Mexico because it will result in a flood of new footwear imports to the U.S. market. Mexico's footwear and shoe-supplying industries are well-developed and have the capacity to compete in a broad-range of footwear categories. The U.S. already is the leading market for shoes from Mexico. Mexico will become a major supplier of footwear to the U.S. market if an FTA is effected between our two countries. These imports will be in addition to, not a replacement for, imports from China and other Far Eastern countries.

The Bush Administration is clearly unaware or unconcerned about the consequences of an FTA with Mexico on a large segment of U.S. manufacturing, particularly labor-intensive industries. Nor have the economic effects of such an agreement been weighed with other Bush trade initiatives that will likewise take their toll on our industry and others, such as the Uruguay Trade Round, the Enterprise for the Americas Initiative, the Andean Initiative, and the liberalization of trade from Eastern Europe. The U.S. Government is rushing into these various initiatives in a pell mell fashion with frightening speed, and, apparently, with little regard for those segments of the U.S. economy that will shoulder most of the burden.

Mexico's efforts to open its markets in the past few years are admirable. President Salinas has pledged that he will further these goals; however, what guarantees do we have that Mexico's new experiment with free-market economics will last? Mexico is, after all, still very much a developing country, and a new Mexican president could reverse the Salinas reforms.

II. THE DOMESTIC FOOTWEAR INDUSTRY HAS DONE ITS PART TO ASSIST THE DEVELOPMENT OF THE POORER COUNTRIES

In 1989, 860.4 million pairs of nonrubber footwear were exported to the U.S. at a value of $7.4 billion. In 1990, domestic production fell another 11 percent while imports grew to 900 million; import penetration was 83 percent. The overwhelming majority of these imports are from developing countries, such as China and Mexico, and the newly industrialized countries, such as Korea and Taiwan.

The Congress is well familiar with the havoc that imports have wreaked on the domestic nonrubber footwear industry. There is also an awareness that our industry has done more than its part in contributing to the development of nations throughout the world. With so very little of our market left, we must strongly oppose an FTA with Mexico, which would lead to a further erosion of our market.

III. MEXICO'S FOOTWEAR INDUSTRY IS WELL-DEVELOPED AND WELL-POSITIONED TO EXPORT TO THE U.S. MARKET

Mexico's footwear producers boast that they are ready to conquer the international footwear market, and that they have sharpened their skills for quality production and prompt delivery.

According to an article in the May 1990 American Shoemaking[1]

> The country has a large labor pool which is relatively skilled in the intricacies of high and medium quality leather footwear. It also has a strong components industry; the industry is 80% self-sufficient as far as components.

The article goes on to state that Mexico is expected to increase its exports by 15 percent next year, and that Mexico's proximity to the U.S. makes it a "natural target for increased exports of shoes and shoe components."

Another recent article in a footwear trade publication[2] makes the point that Mexico has an advantage in the North American and South American markets because of its "proximity, and because of their wage rates, which are lower than many in the Orient, especially Taiwan, Korea and Hong Kong." The article also points out that:

> Mexico is on the verge of becoming a major footwear exporter. It has upgraded its quality and it is improving its technology. Its wage levels are competitive, and it is actively seeking a share of the international market.[3]

Mexico claims to have 4,653 footwear manufacturers with some 500,000 workers involved in the footwear, tanning, and supply industry. Of these workers, more than 230,000 are in shoe factories and another 100,000 in supplying industries. Apparently these numbers do not take into account the people who take uppers home with them at night to stitch and return them to the factory the next day.[4]

Of the 245 million pairs of shoes produced in Mexico in 1988, 85.9 million were men's, 83.8 million were women's, and 66.3 million were children's [5].

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[1] American Shoemaking, "Mexico A Market, A Source," May 1990, pp. 33-38.

[2] World Footwear, "Country Survey: Mexico," March/April 1989, p. 29.

[3] Ibid., p. 30.

[4] Ibid. p. 29.

[5] Ibid.

IV. REASONS WHY THE U.S. NONRUBBER FOOTWEAR INDUSTRY OPPOSES AN FTA WITH MEXICO

As established in the sections above, the domestic nonrubber footwear industry has already been seriously harmed by developing country imports and under an FTA, Mexico has the capacity to further erode what is left of our domestic industry. These are sufficient reasons for domestic footwear producers to oppose any such agreement; however, we also have additional concerns. FIA believes that:

A. Free Trade Agreements Do Not Work When Economies Are On Such Different Developmental Scales. Even though Mexico has taken steps to open its market, it still maintains a large number of import policies that are characteristic of a developing country and that are not compatible with an FTA. These include an import licensing scheme covering 250 items, which according to the 1990 National Trade Estimates Report on Foreign Trade Barriers, are administered in a nontransparent manner and many times function as complete import bans. The same could be said for the way Mexico administers standards, regulations and testing, and certification. Mexico was also placed on the "priority watch list" under the "special 301" provision of the 1988 Trade Act in May 1989 because of lack of intellectual property protection. Mexico has since been removed from the "watch list," but largely on the basis that it has committed to make improvements. There are still restrictions on investments and in other areas as well.

Moreover, the higher wages, environmental, other regulatory and social costs borne by U.S. producers will put them at a severe disadvantage once the border restrictions are eliminated to create a so-called "free trade area."

B. Transshipment Will Be a Problem. An FTA will foster transshipment of Asian footwear through Mexico. It will also result in Asian-financed shoe factories south of the border to take advantage of the preferential duty rates. Such imports will be in addition to, not a replacement for, current imports from these countries.

C. The U.S. Has Been Reluctant to Act Against FTA Violations. In 1985, the U.S. signed a trade pact with Israel. Israel has not lived up to a number of its commitments under the FTA, and, in fact, has all but negated the duty benefits which were to be afforded to U.S. exporters. So far the U.S. has failed to act. Can we expect to see the same lack of enforcement with Mexico?

D. Relaxation of U.S. Trade Laws Will Be a Feature of the FTA. The U.S. has relaxed U.S. trade laws under its FTAs with Israel and Canada, which has the result of stripping U.S. industries of many protections provided in U.S. trade laws from unfairly or injuriously traded imports. There can be little doubt that Mexico will demand the same exemptions. In the case of Mexico, however, loss of these protections would present major problems for many U.S. industries.

E. Discussion of an FTA with Mexico Should be Postponed. The results of the Uruguay Trade Round and its impact on U.S. manufacturing are not a known quantity. Until the results of the Round are evident, the U.S. should hold off on the many other trade initiatives that have been spilling forth in recent months, such as a U.S.-Mexico FTA. It is particularly foolhardy to press forward with the FTA when the results of the Round are unknown and the U.S. is in a major recession.

V. CONCLUSION

FIA opposes an FTA with Mexico for the reasons stated above. We are also concerned about a U.S. policy that would force many domestic footwear producers to shift production to Mexico or close up their operations altogether. There will clearly be winners and losers if an FTA with Mexico is agreed to. Much of U.S. manufacturing will fall in the "loser" category. This will be particularly the case for the domestic nonrubber footwear industry. .

TESTIMONY PRESENTED BY GREENPEACE USA TO
THE SUBCOMMITTEE ON TRADE, COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
REGARDING THE
PROPOSED U.S.-MEXICO-CANADA FREE TRADE NEGOTIATIONS

February 28, 1991

Mr. Chairman, members of the Committee, Greenpeace USA welcomes the opportunity to present its views on the proposed U.S.-Mexico-Canada free trade negotiations. I am Cameron Duncan, Greenpeace international economist. Greenpeace is an international environmental organization with two million supporters in the United States and four million members worldwide.

There are few public policy issues that have as much significance for the people of Mexico, Canada, and the United States as does this Presidential initiative. The further integration of the economies of North America, under appropriate rules, is a commendable goal. The proposed negotiations could provide an historic opportunity to encompass environmental and social concerns in a trade agreement which will create a tariff-free zone of 360 million consumers. But it is an extremely complex task and must be designed so as to promote the well-being of the people and the protection of the environment of all three countries. By this criteria, the comprehensive North American free trade agreement (FTA) as proposed by the President falls short.

With little public discussion or debate, Presidents Bush and Salinas announced last year their intention to enter into negotiations leading to the enactment of a FTA between the two countries. This month it was announced that Canada would also be a party to a three-way trade agreement. President Bush has proposed to conduct these negotiations under special congressional authority known as "fast track," which allows the President to submit implementing legislation resulting from a trade agreement to congress under a closed rule. The use of "fast track" will stifle both public and congressional debate of the proposed FTA, and will seriously limit the law-making authority of the Congress.

Greenpeace believes that the Ways and Means Committee should deny "fast track" negotiating authority for the proposed FTA. We do not oppose a comprehensive North American trade agreement. In fact, we believe that a properly structured agreement could have beneficial social and environmental impacts throughout the region. But we are concerned that an agreement that includes only trade and investment rules may have serious adverse effects on the environment, labor standards, agricultural interests and consumers in all three countries. We urge that any trade agreement be based on a process that encourages the broadest possible debate on these critical issues before it is concluded. Fast track authority in

the terms requested by President Bush on September 25, 1990, ignores the need for full congressional consideration.

Article 1, Section 3, Clause 8 of the Constitution gives Congress, not the President, the power "to regulate Commerce with foreign nations." Many in Congress believe a free trade agreement with our North American neighbors holds great opportunities. But we would suggest that Congress must be persuaded that the specific agreement negotiated is in the best interests of the United States, as well as in the interests of people throughout the region. It is imperative that Congress be actively engaged at all steps -- in framing the issue parameters of the negotiations as they are defined at the outset, and in determining the final terms of an agreement.

FTA POTENTIALLY BENEFICIAL TO ENVIRONMENT

Greenpeace is not opposed to more balanced trade among the North American countries. We believe that it is potentially beneficial for the region, but only if it is carried out under rules that prevent trade and foreign investment from worsening the living standards and environmental conditions of the people in all three nations.

Greenpeace has two principal concerns about the proposed agreement - (1) building respect for basic environmental standards into the terms of any North American FTA, and (2) the need for an environmental assessment of the trade agreement. The effects of a free trade area on the regional environment deserve careful scrutiny. Environmental assessment should be an integral part of the negotiating process. As is all too common when critical economic decisions are made, the environmental consequences of free trade may be considered only after the fact, when the costs of repairing damage will be much greater.

The uncertainties are many. How will the pressure - generated by free trade - to harmonize the effects of environmental regulations in Canada, Mexico, and the U.S. affect standards in the other countries? Will each country remain free to adopt more stringent regulations in future and to develop environmental standards appropriate to their own specific environmental needs? Will a free trade arrangement impair each country's ability to manage its natural resources to permit long-term sustainable development and conservation? These are questions which should be addressed in a comprehensive environmental assessment of the proposed agreement.

For these reasons, we urge the Committee to direct the Administration to include in the negotiations the establishment of rules that link more open trade to protection of the environment and of other social concerns. Guarantees of fundamental environmental norms and mechanisms in the agreement are necessary to prevent the erosion of existing norms and potential abuses.

As an organization committed to environmental protection and social justice, we recognize the importance of sustainable and equitable economic growth in Mexico. As the Mexican economy opens up to imports and foreign investment, and as it creates the export sector it sorely needs, integration with the United States and Canada will accelerate. This is inevitable and is not markedly different from the economic integration experienced by the countries of Western Europe. There is a loss of economic sovereignty everywhere in the world as national economies become more subject than before to foreign economic trends and as national policies become less effective.

The difference in the case of Mexican economic integration with the U.S. is the huge disparity in size, economic development, technology, and productivity of the two countries. In Europe, every member of the EC has given up some national decision-making power, though some have given up less than others. In the U.S.-Mexican case, most of the giving up may be done by Mexico if the process is ruled by market forces alone. This will inevitably breed resistance in Mexico and make the establishment of an equitable free trade area more difficult. Because Mexico faces greater risks in removing its trade barriers than the other two countries, the FTA will have to include compensatory measures for Mexico.

As Mexico's most important trading partner, the U.S. will continue to be affected by the high levels of poverty and deprivation across the Rio Grande. Illegal immigration, environmental degradation, and political tensions are all related to the poverty of Mexico today and to the imbalance in our economic relationship. We should not allow the urgency for a trade agreement with Mexico that ignores these problems to risk deteriorating social and environmental conditions throughout the region.

FREE TRADE AND ENVIRONMENTAL STANDARDS

The first effect of a FTA upon environmental regulations will be to render law-making more complex. Not only will an additional bilateral level of bureaucracy be created, but either country's environmental rules could be construed as non-tariff barriers to trade. For example, assistance provided by Canadian governments to encourage industry to reduce air and water pollution is less common in the U.S. and Mexico. If U.S. or Mexican industries had to meet similar environmental standards without comparable aid from their own governments, Canadian assistance might be grieved as an unfair subsidy.

An attempt to undermine Canadian environmental standards in such a manner was initiated by the U.S. non-ferrous metals industry, which has challenged Canadian pollution control programs to reduce acid rain because these programs include investment credits. The U.S. metals industry claims that the programs constitute unfair trading practices.

The Canada-U.S. free trade agreement of 1987 did not resolve the issue of whether or not state and provincial environmental protection standards can be pre-empted by lower, harmonized standards. U.S. and Mexican environmental laws allow states and local governments to develop their own standards in some areas.

The European Community Treaty, as amended by the Single European Act, provides that stricter state standards may remain in place, if they are verified by the European Commission as not arbitrary or disguised trade restrictions. A similar provision, establishing a North American trilateral commission to resolve trade and environmental disputes, could be included in the proposed FTA. Greenpeace believes that the negotiators should consider the explicit exemption of state and local environmental, public health and worker safety standards from challenge as non-tariff barriers to trade, even if such standards are more stringent than required by respective federal laws.

Officials of both the U.S. and Mexico argue that the other government uses sanitation and safety rules to limit agricultural imports. Mexican food industry representatives complain about U.S. restrictions on pesticides, authorized waste in farm production, and the use of filth tests for handling and processing foods. The Mexican government is also concerned about the pesticide issue, complaining that many of Mexico's agricultural exports to the U.S. are rejected because of the use of unauthorized pesticides, even though these pesticides are manufactured and marketed by U.S. businesses established in Mexico.

The FTA should include a ban on the import of hazardous substances which have been banned, refused registration by government regulatory action, or voluntarily withdrawn from registration in the country of manufacture, for human health and environmental reasons.

NATURAL RESOURCES EXTRACTION

The proposed FTA could have a major impact on the management of non-renewable resources in North America. One of the U.S. government's principal goals in the U.S.-Canada FTA was to guarantee its long-term access to Canadian oil, natural gas, minerals - even drinking water. It wanted to ensure that any future Canadian government would not pursue interventionist policies.

The 1987 U.S.-Canada FTA prohibits countervailing restrictions on energy exports or imports as well as minimum energy prices or export taxes. Most serious of all, the agreement obliges Canada to continue exports of non-renewable resources even in cases of national shortages. Even in the case of an emergency, Canada is obliged to continue exporting oil to the U.S. at the same rate as it had over the three prior years.

While the Mexican government states that its oil resources

will not be a part of the proposed FTA, it is widely expected that preferential U.S. access to Mexican oil and demands to help the state-owned Petroleos Mexicanos in developing hydrocarbon reserves will figure in the talks. From an environmental perspective, a free trade pact which facilitates U.S. access to Mexican and Canadian hydrocarbon resources and which promotes the increased consumption of fossil fuels is not desireable.

Direct foreign investment in Mexico's oil resources should not be on the negotiating table. The FTA should not be used to further U.S. addiction to fossil fuel consumption.

BORDER ENVIRONMENTAL PROBLEMS

If the North American Free Trade Agreement does not explicitly provide for the protection of the environment, the already severe environmental problems along the U.S.-Mexico border will become worse. An example is the Mexican Border Industrialization Program, a mini-free trade area where about 2,000 runaway U.S. maquiladora factories take advantage of Mexican wage levels to produce goods exported to the U.S. The difference in labor costs means that each Mexican worker paid between $4 and $10 a day by a U.S. firm is providing that company with a subsidy of at least $23,000 per year.

The Wall Street Journal reported on September 22, 1989, that the growth of the maquiladora program "is helping turn much of the border area into a sink hole of abysmal living conditions and environmental degradation." Greenpeace is particularly concerned about the maquiladora industry and the air and water pollution problems, the increased threats to worker safety, and the production of hazardous wastes associated with that industry.

The U.S. Environmental Protection Agency found that few maquiladoras return their hazardous waste to U.S.parent companies, as required by Mexican law. Because the enforcement of Mexico's environmental laws is lax and the cost of disposing of waste in the U.S. is high, the incentive to dump the waste in Mexico is large. In 1989, 175 drums ot PCBs were found abandoned only two blocks from the border in El Paso. Across the border in Ciudad Juarez, storage drums for other toxic chemicals are used as drinking-water containers. In the groundwater of Nogales, Arizona, and the sewage system of Tijuana, Baja California, reports of illegal industrial contamination by solvents have increased. Any agreement of which stringent enforcement of laws on toxic chemical discharges and hazardous waste disposal is not an integral part will certainly not only open the door, but also encourage U.S. industries to relocate and operate under similar conditions.

PRECEDENT FOR ENVIRONMENTAL CONDITIONS IN TRADE AGREEMENTS

The Administration has been reluctant to accept the need for including environmental and labor rights in the proposed negotiations, suggesting that it is not appropriate to include these concerns in a trade agreement. However, there is ample

precedent for such measures in existing trade rules. Exceptions to obligations imposed by the General Agreement on Tariffs and Trade (GATT) include provisions allowing those measures which are necessary to protect human, animal or plant life or health and to conserve non-renewable natural resources, if such measures are enacted along with restrictions on domestic production or consumption (GATT Article XX). This opens the door to linking respect for basic environmental standards to a regional trade agreement, especially since trade-related environmental laws are already on the books in Mexico, Canada and the United States.

In today's global economy, it is evident that the existence of different environmental standards and enforcement in different countries, especially in production for export, have the practical effect of subsidizing production wherever standards are lower or non-existent. It follows that any trading nation ought to be able to take action to eventually eliminate such disparities. If two or more trading nations, forming a regional trading bloc, can agree to uphold certain threshold environmental standards in trade among themselves, so much the better. Toward that end, an historic opportunity exists for building respect for basic environmental standards into the liberalized trade terms of any North American FTA.

The negotiating process by which we agree on the best way to manage the economic integration with Mexico and Canada will be complex. Because a thorough and democratic debate on these issues is imperative, we believe that granting "fast-track" authority to allow the Administration to negotiate an FTA with Mexico and Canada should be denied. This does not mean, however, that Mexico's critical need for financial assistance to create jobs, meet basic needs, and upgrade the enforcement of its environmental regulations should be postponed. A reduction of Mexico's crippling foreign debt burden could contribute to these needs, while giving the U.S., Mexico and Canada the opportunity to begin a dialogue about continental economic and environmental arrangements that will best serve the citizens of each country.

CONCLUSION

Any free trade agreement will have a potentially serious impact on the regional environment. Greenpeace asks this Committee to ensure that a North American FTA include rules which will allow the respective governments to manage the growing trade ties and the environment in mutually beneficial, equitable and humane terms. Specifically, we urge that:

1. An Environmental Impact Statement on the potential impact of the proposed FTA should be undertaken concurrently with the negotiations and delivered to Congress along with the final agreement.

2. The proposed FTA should respect the responsibility of any trading nation to protect environmental quality and maintenance of

scarce biological and physical resources in the conduct of international trade.

3. The proposed FTA should not treat hazardous waste as a commodity, or waste disposal as a tradeable service. There should be a ban on waste exports from the U.S. to Canada or Mexico.

4. The proposed FTA should prohibit the trade in hazardous substances which have been banned in the country of manufacture for human health and environmental reasons.

5. The proposed FTA should require full public disclosure of the kinds of, and risks associated with, toxic chemical and hazardous substance releases into the environment.

6. The proposed FTA should include a mechanism for providing to Mexico the financial and technical assistance necessary to enforce the environmental standards which may be agreed in the FTA.

7. The proposed FTA should establish a trilateral dispute resolution mechanism, whose deliberations must be made public, which would deal with trade distortions and would ensure that commercial interests do not prevail over protection of the regional environment.

It is imperative that the Committee deny "fast track" negotiating authority and that Congress assume its responsibility to ensure that environmental as well as agricultural, human rights and labor concerns are an integral part of any negotiated trade agreement. Regional interests will be advanced by trade that enhances broad-based development in all three countries; North American will be degraded if trade is allowed to worsen the exploitation of the poor and the rape of the environment.

H-E-B

CHARLES C. BUTT
CHAIRMAN OF THE BOARD
PRESIDENT

H.E. BUTT GROCERY COMPANY
646 S. MAIN AVENUE
P.O. BOX 839999
SAN ANTONIO, TEXAS 78283
(512) 270-9203

February 11, 1991

Dear Chairman Rostenkowski, -

We strongly support Fast Track authority for the free trade agreement with Mexico.

As you know, this proposal has become politicized in Mexico and the principal opponent of President Salinas, Cuauhtemoc Cardenas, has voiced strong objections to developing a trade alliance with the United States.

I feel that the inability of Mr. Cardenas and his supporters to put aside old differences and support this agreement is damaging to Mexico's future and can be confusing to Americans who are attempting to understand the opportunities and issues involved in free trade.

To illustrate the depth of Mr. Cardenas' oppositions to President Salinas' new initiatives, I'm enclosing a copy of a speech Cardenas delivered in the Spring of 1990.

In my opinion President Salinas has taken a big political risk to put his proposals forward and in my view he deserves the strong support of the United States in something that will clearly be good for both countries in the long run.

Thank you for considering our views.

Sincerely

Charles Butt

The Honorable Dan Rostenkowski
Chairman
House Committee on Ways and Means
2111 Rayburn House Office Bldg.
Washington, DC 20515

[THE ATTACHMENT TO THIS LETTER IS BEING RETAINED IN THE COMMITTEE FILES.]

STATEMENT OF ROBERT J. STAAB,
PRESIDENT OF INDIANA GLASS COMPANY
BEFORE THE TRADE SUBCOMMITTEE, COMMITTEE ON WAYS AND MEANS
HEARINGS ON THE FREE TRADE AGREEMENT WITH MEXICO
FEBRUARY 20 AND 21, 1991

As President of Indiana Glass Company, I hereby submit its opposition to the inclusion in the proposed U.S./Mexican Free Trade Agreement ("FTA") of glassware under HTS 7013.21- .10, .20; 7013.29- .05, .10, .20, .30, .40, .50, .60; 7013.31- .10, .20, .30, .50; 7013.32- .10, .20, .30, .40; 7013.39- .10, .20, .30, .40, .50, .60; 7013.91- .10, .20, .30, .50; 7013.99.10; 7013.99- .40, .50, .60, .70, .80 and .90 ("HTS 7013"). Indiana Glass is a major domestic glassware producer with glassware production facilities in Dunkirk, Indiana and Sapulpa, Oklahoma and administrative offices in Blue Ash, Ohio. It manufactures and sells glassware in the United States in direct competition with like products imported under these HTS 7013 categories from Mexico. For all the reasons set forth hereafter, we ask Congress to require that glassware be excluded from the FTA.

I. INDIANA GLASS COMPETES DIRECTLY WITH MEXICAN GLASSWARE AND PRICE IS THE OVERRIDING CONSIDERATION FOR PURCHASERS

Indiana Glass manufactures a wide range of products that are sold primarily in the lower-priced segment of the U.S. market. It competes directly with the same like products made in Mexico. The products are of similar quality, are easily interchangeable and substitutable for each other and compete in the same channels of distribution. The consumer perceives Mexican and U.S. produced glassware to be the same products and is influenced solely by price. On April 18, 1990, Wayne Donie, Vice President of Manufacturing and Engineering of Indiana Glass, testified at a GSP hearing before the ITC. He brought two 4-packs of soda lime drinking glasses to the Hearing. The glasses that were made by Vitrocrisa of Mexico sell for $2.97 and $1.99 "on sale." The same glassware produced by Indiana Glass sells for $4.99 and $3.99 "on sale" at mass merchandisers. The retailer paid around $1.00 for the Mexican glasses which is below Indiana Glass' cost of production. The Mexican producer, Vitrocrisa, probably received 72 cents for these glasses before duty.

The only difference between Mexican products and those manufactured in the United States are Mexico's consistently lower prices brought about by its aggressive marketing strategy of price undercutting to gain market share. This accounts for the price depression in the U.S. market for glassware. A good example of the Mexican producers' ability and aggressive practice of price cutting is demonstrated in Vitrocrisa's price lists dated December 13, 1988 and February 14, 1989, attached hereto as Exhibit 1. The price list dated December 13, 1988, lists a price of $2.25 for a six-inch "globe-shaped" bowl, $4.50 for an eight-inch "globe-shaped" bowl and $9.00 for a twelve-inch "globe-shaped" bowl. The February 14, 1989 list prices were $1.80, $3.60 and $5.75, respectively, for the same "globe-shaped" bowls, a 20 percent to 36 percent drop in price in only two months. Furthermore, Vitrocrisa then provides further discounts from these list prices by as much as 40 percent or more.

On September 26, 1989 at a GSP Hearing before the ITC, the Vice President of Mid-Atlantic of West Virginia, Inc. testified that one of its customers asked it to match Vitrocrisa's eight-inch

"globe-shaped" bowl price of $1.20 in the U.S. market.1/ The price lists attached as Exhibit 1 indicate that Vitrocriss purported to offer eight-inch "globe-shaped" bowls at a list price of $3.60 in 1989 and had offered it at a list price of $4.50 in 1988.

The Mexican glassware producers' ability to drop list prices by 20 percent to 36 percent and then offer customers another discount of 40 percent or more off its list price makes it patently clear that they do not need FTA eligibility to compete. It is equally clear that FTA eligibility and the resulting drop in Mexican prices would cause the elimination of all U.S. production of glassware.

II. INDIANA GLASS OPPOSES FTA ELIGIBILITY FOR ALL THE GLASSWARE TARIFF CATEGORIES

Indiana Glass opposes FTA eligibility for all of the above listed glassware tariff categories because the loss of sales for any one of its glassware products would result in immediate and dramatic increases in unit costs for all of its other products. Price increases on our products will be made necessary because of the glassware manufacturing process.

Table glassware production facilities ("glass tanks") are extremely capital-intensive investments that are expected to operate continuously -- that is, 24 hours a day, 365 days a year. Typically, glass tank construction costs $1 million or more for each 10 tons of daily capacity for a new tank built on a green field site. Similarly, glass tank construction costs are about $1 million or more for each 20 tons of daily capacity just to rebuild an expired existing tank. These massive piles of sophisticated, expensive refractories last six to seven years, on average, and then must be replaced.

The longest life for a glass tank is obtained by continuous operation. Starting or stopping tanks frequently is self destructive and is not considered to be an affordable option to the glassware manufacturer. The thermal shock of each tank start-up damages the exotic and expensive refractories causing accelerated self destruction which greatly shortens the tank life and thereby increases unit costs. Further, vast amounts of fuel are wasted with every cold start-up of a glass tank. Likewise, "banking the fires" to put such a tank "on hold" to avoid a total shut-down during a production lull is extremely expensive and wastes both tank life and vast amounts of energy.

As tank life is wasted with each partial or total shut-down, the sunk cost of capital invested to construct the tank must be distributed over fewer and fewer tons of glass which the tank will be able to produce in its lifetime. When market share is lost, turning off the process is generally not one of the first options considered practical by a glass manufacturer; it is always a last and desperate resort, and indicative of prolonged reduced output.

From still another perspective, the most fuel efficient way to operate a glass tank is at or near full capacity. Between 80 percent and 90 percent of the gas consumed in a glass tank after start-up is for maintaining temperature. Only 10 to 20 percent is required for batch melting. Natural gas is the fourth largest single element of cost in our company's cost structure after labor, materials and depreciation. Therefore, the economic penalties of running a tank at only partial capacity are immediate and massive.

1/ Transcript at 46.

As tank capacity utilization is reduced by shutting down one or more production lines running on that tank, gas costs continue virtually unchanged. So, also, do the costs of labor and overhead associated with the tank operation.

Unlike glass manufacturing, other non-continuous manufacturing processes such as fabrication or assembly are able to start or stop their production lines at will without such dramatic penalties. They do not self destruct as a result of the mere act of being started or stopped. They do not typically continue to consume as much energy in the shut down or idled condition as they do in the operating condition.

The preceding description of the glass melting process indicates the following unavoidable conclusions:

1. For the glass manufacturing process, reducing operating level results in tank damage, massive fuel loss, and wasted capital, causing even higher unit costs.

2. This results in even further deterioration of our products' ability to compete in the marketplace.

3. This can become a self fulfilling prophecy. The less you have to produce, the more capital is wasted and the higher your unit costs become. The higher your unit costs, the less effectively you are able to compete. The less you are able to compete effectively, the less you need to produce.

III. CONGRESS HAS EXCLUDED IMPORT-SENSITIVE GLASSWARE PRODUCTS FROM GSP ELIGIBILITY BY STATUTE AND THEY SHOULD BE EXCLUDED FROM THE FTA

Congress has found that semimanufactured and manufactured glassware products are import-sensitive and by statute precluded them from GSP eligibility. 19 U.S.C. § 2463(c)(1) lists the articles that are not eligible for GSP treatment and subsection (F) provides: "import-sensitive semimanufactured and manufactured glass products." Unlike other exclusions, the language of subsection (F) has remained unchanged since the enactment of the GSP provision in the Trade Act of 1974, as amended ("Act").2/ Congress recognized the history of trade cases and import-sensitivity of these products and, therefore, created the specific exclusions. This Congressional mandate should not be ignored or reinterpreted in the debate over the FTA. For all the reasons that import-sensitive glassware is excluded from GSP eligibility, it must also be excluded from the FTA.

IV. GLASSWARE PRODUCTS SHOULD BE SPECIFICALLY EXCLUDED FROM THE FTA BECAUSE THEY ARE EXTREMELY IMPORT-SENSITIVE

The import-sensitivity of the glassware industry has been recognized through the long established precedent of rejecting or denying previous glassware GSP petitions, including the Mexican and Andean glassware GSP reviews in 1989-90. The import-sensitivity of glassware has also been recognized by our trade negotiators and is reflected by the relatively high tariff rates for glassware as compared to the average tariff rates for other products. During the Tokyo Round of Multilateral Trade Negotiations, tariff reductions for glassware were almost all less than formula.

2/ Section 503(c)(1)(F) of the Trade Act of 1974, Pub. L. 93-618, 88 Stat. 2070.

The sensitivity of glassware products to price decreases arising out of duty reduction on imports is well illustrated by the results of the Caribbean Basin Initiative ("CBI") and the U.S.-Israel Free Trade Agreement. When the CBI came into effect in 1985, imports from the CBI countries increased from 860,000 pieces in 1984 to 5.6 million pieces in 1988 -- a 554 percent increase. As a result of duty-free treatment under the U.S.-Israel Free Trade Agreement, imports of glassware increased by 8,356 percent from 25.5 thousand pieces in 1985 to 2.2 million pieces in 1988. Indiana Glass expects an even more devastating increase in imports of Mexican glassware which will overwhelm U.S. producers if duty-free treatment is granted to glassware under the FTA.

The import penetration of the U.S. glassware market under HTS 7013 has risen from 10 percent in 1981, to 33 percent in 1985, and to 44 percent in 1988. These are substantially higher import penetration levels than those which currently exist in the textile and steel industries (between 20 and 30 percent) which Congress and the Administration consider to be import-sensitive. This rapid increase in imported glassware penetration of the U.S. market has occurred under the current tariff structure. This import penetration problem has been aggravated by a stagnant, mature U.S. glassware market. As import volume increased and captured larger segments of U.S. market share, domestic shipments for table, kitchen, art and novelty glassware declined 5 percent from 1986 to 1987 and were only marginally higher in 1988 than they were in 1984. Furthermore, as Exhibit 2 establishes, domestic shipments of tumblers decreased by 33 percent, domestic shipments of stemware decreased by 20 percent, and domestic shipments of beverageware decreased by 30 percent, from 1984 to 1988. These dramatic increases in U.S. market share have been caused by the deep price undercutting by imported glassware producers -- undercutting that will be even more severe if duty-free treatment under an FTA is granted to glassware.

V. THE RAPID INCREASE IN IMPORTS HAS BEEN DISASTROUS FOR THE IMPORT-SENSITIVE U.S. GLASSWARE INDUSTRY

The rapid increase in import penetration levels in the U.S. market caused by deep price undercutting has been disastrous for the U.S. glassware industry. At least 39 glassware plants have closed since the Tokyo Round tariff reductions went into effect in 1980, 24 of which closed in the last five years. Over 16,000 glassware workers lost their jobs due to imports. During the period of April 1986 to July 1989, 5,284 glassware workers received trade adjustment assistance because their jobs were lost to import competition. When these glassware plants closed, there was a ripple effect that resulted in an equal loss of jobs in the industries that had supplied the plants, such as chemicals, sand, energy, packaging, equipment, and molds.

These closings do not include the great number of employees that are currently laid off from existing glassware plants. This contraction in the industry resulting in lost jobs, lost capacity, and the idling of current capacity has been caused by the loss of sales and market share to low-priced import competition. As U.S. plants closed and over 16,000 American workers lost their jobs, the U.S. market share of imports increased dramatically from 10 percent to 44 percent from 1981 to 1988, respectively.

Almost all of the plant closings occurred in small towns where the glassware plant was the major employer and its closing had a devastating impact on the town and the entire region in which it was located. Most of these closings occurred in depressed rural economies where there are few, if any other job opportunities. Unemployment is higher in these locations than other areas in the United States. Unfortunately, due to their specialized skills and lack of education, glassware workers are not easily transferable to other industries outside of their depressed local economies.

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Because of low priced import competition, Indiana Glass was forced to close one of its Dunkirk, Indiana facilities in 1986, resulting in a loss of 200 employees. In confirmation that the glassware industry is import-sensitive, all of the unemployed glassware workers at the Dunkirk, Indiana plant received trade adjustment assistance. It cost the U.S. taxpayers $500,000 to retrain the 200 workers and a loss of tax revenue on $4 million to $7 million a year of lost wage earnings. This, of course, does not take into account the loss of jobs and tax revenue in the industries that supplied that plant before imports forced its closing. If the U.S. glassware industry is sacrificed for a free trade agreement with Mexico, the loss of the 21,000 remaining glassware industry jobs may translate into $52.5 million in retraining costs and the loss of $600 million to $700 million in wage earnings. Experience has shown that laid-off glass workers almost always, even with retraining, end up at substantially lower wages, if they get work at all.

While Indiana Glass has lost sales because of its inability to meet the low prices of imported Mexican glassware, it has managed to survive because of an extensive program of cost-cutting, efficient, state-of-the-art manufacturing facilities, reliable delivery, and prompt response to its customers. As a result, Indiana Glass has been able to remain competitive by keeping its prices as low as possible and servicing its customers well. However, Indiana Glass wants to make it very clear that there are no other cost saving or efficiency measures that it can take to offset further import price reductions which will result if duty-free treatment is granted for Mexican glassware. Its responsiveness to customers' orders and reliable delivery will not be enough to offset the greater gap in prices.

Because of the deep discounting of prices in recent years to compete with Mexican glassware imports, prices in the U.S. market have been depressed, resulting in lower profit margins and no room for further price decreases on glassware produced by Indiana Glass. FTA eligibility of the subject glassware products will cause a surge in Mexican import volume and decreases in its prices that will negate all of the efforts that Indiana Glass has taken to be efficient and competitive. Duty reductions will result in the closing of additional Indiana Glass plants, the lay-off of more workers and probably the demise of the company. The deluge of imports that occurred as a result of the Caribbean Basin Initiative ("CBI") and the U.S.-Israel Free Trade Agreement are an ominous portent of things to come. Similarly, the deterioration in the glassware industry after the Tokyo Round tariff reductions provides further evidence to support Indiana Glass' concerns. Since Indiana Glass does not have production facilities outside of the U.S., it cannot protect itself from the deluge by sourcing cheap glassware from sister plants abroad to remain viable. As discussed hereafter, the low labor, energy and regulatory costs of Mexican producers make it impossible for U.S. producers to compete against them in their home markets.

The success of producers in Mexico in rapidly increasing their share of the U.S. market over the last four years is due entirely to the ability to sell at the lowest price in the price-sensitive U.S. glassware market. In addition to their state-of-the-art machinery, equipment and efficient operations, Mexican producers also have the advantage of low glassware labor ($9.00 per day) and subsidized energy costs. Furthermore, they do not incur the costs for environmental, workers compensation, OSHA or other similar government regulations that are imposed on U.S. manufacturers. It would be incongruous for our government to impose these costs upon the U.S. glass industry and then ignore the competitive disadvantage they create, particularly under the proposed FTA.

Indiana Glass estimates that if the costs imposed by governmental regulations were removed, and the gas prices and labor costs reduced to those of Mexico, it also could sell glassware on the domestic market for 40 to 50 percent less. Why should foreign producers be rewarded by duty reductions for ignoring the welfare of the environment and their workers? Under the current competitive conditions, these additional costs which the U.S. glassware industry must bear are like a 100 pound rock which the U.S. runner must carry in a foot race against a foreign runner who does not carry such a rock. It is not difficult to understand why the U.S. runner under such competitive conditions needs a handicap, such as the current glassware tariffs.

VI. MEXICAN PRODUCERS OF GLASSWARE ARE WORLD-CLASS COMPETITORS WHO DO NOT NEED DUTY REDUCTIONS TO COMPETE IN THE U.S. MARKET

Mexican glassware producers such as Vitrocrisa are world-class competitors who operate modern, efficient, state-of-the-art glassware facilities and employ aggressive marketing techniques. These world class competitors do not need duty-free treatment for their exports. Vitrocrisa is part of a Mexican conglomerate that the ITC found to be "one of the largest private enterprises in Mexico and consists of some 90 companies employing 35,000 people." The parent holding group is diverse, producing nonmetallic minerals, glass and glass products, white goods, and capital machinery."3/

Vitrocrisa is a well established, mature and highly sophisticated company that operates modern, efficient, state-of-the-art glassware facilities. It has captured a substantial share of the U.S. market through a low priced, high volume marketing strategy. Vitrocrisa is responsible for the Mexican glassware imports which increased 66 percent from 1984 to 1988. As the ITC found, diverse glass items represent the conglomerate's dominant product.4/ This is not the profile of a company which needs duty-free treatment under an FTA to become competitive in the U.S. or world glassware markets. In fact, Vitrocrisa has publicly proclaimed its world class status: "There is no other glass manufacturer in the world that has all of the capabilities we have."5/ Vitrocrisa has publicly stated its ambition to be the U.S. retailers' total glassware resource.6/

3/ U.S. International Trade Commission, Foreign Investment Barriers Or Restrictions That Prevent Foreign Capital Claiming The Benefits of Foreign Government Programs, USITC Pub. 2212, August 1989, at 2 through 10.

4/ Id.

5/ "Mexican Invasion: Crisa Targets U.S. Turf," Housewares 140, November 10, 1986.

6/ ... Sit down at any table in Mexico and order a beer, Coca-Cola, orange juice, milk or water -- well, maybe not water -- and you'll find one thing all these beverages have in common. They'll all be served in Crisa glassware.

With about 75 percent of the Mexican glassware market in hand -- and $150 million at retail in pocket -- Crisa unequivocally has the Mexican market sewn up. Now, the glassware giant is digging into markets north of the border with as equally healthy appetite for challenging all who stand in its way.

The company is shouting its market penetration intentions loud and clear, peppering U.S. marketers with a one-two punch of product line breadth and marketing backbone. And if Crisa's newly aggressive sales and marketing battle plans come smoothly to fruition, its potential bite into U.S. glass marketers' stronghold will likely be even worse than in bark.

Vitrocrisa's strategy is to flood the mass market with a low-priced product, then to move up to the department store level, and to become a "total glassware resource by price point, quality and patterns."7/ In 1986, Housewares magazine concluded that Vitrocrisa ranked number four in the race for the U.S. mass market behind Anchor Hocking, Libbey, and Durand and that it intended to increase its position through a strategy of low prices and high volume.8/

With 1988 revenues of over $1.1 billion, this conglomerate had the economic power to bid $251.4 million to acquire the Anchor Glass Container Corporation demonstrating its strength and determination to increase its presence in the U.S. market.9/ Vitrocrisa has reduced its debt to $20 million from $758 million in 1982 and has boosted exports several times over, to $250 million in 1988.10/ Vitrocrisa itself has stated in its advertising that it has more than tripled its sales in the United States from $18 million in 1984 to its forecast of more than $60 million in 1989.11/

The ITC has determined that production of certain glass products exceeds the current demand in Mexico.12/ The ITC also determined that the excess capacity has been magnified by a major recession and other adverse economic circumstances.13/ Vitrocrisa's 1988 Annual Report acknowledged that utilization of "installed" glassware capacity was at 70 percent.14/ There is substantial excess capacity in Mexico which can be used to flood the U.S. glassware market if duty-free treatment under an FTA is granted.

6/ (Cont'd)
Simply put, Crisa wants to be U.S. retailers' total glassware resource. An ambitious goal? Maybe. But Crisa's money is where its mouth is; that forthright goal is backed by the most comprehensive glassware manufacturing facility in the world. From its three massive Monterrey factories, Crisa maintains the ability to make any type of glass on the market, from hand blown to tempered, lead crystal to pressed.

Now $26 million strong at retail here, company executives have no doubt that sum will double over the next few years.... Id.

7/ Id.

8/ Id.

9/ "The Monterrey-based conglomerate, flexing the renewed strength of Mexico's private sector, conveyed its offer in a public letter to Anchor Chairman Vincent J. Naimoli....

Several glass-industry analysts said Vitro's all-cash offer was surprisingly high, given the fact that loss-plagued Anchor's stock was trading below $10 a share as recently as a week ago."

Anchor Glass Gets Unsolicited Bid From Vitro. The Wall Street Journal, August 10, 1989, page A2.

10/ Id.

11/ See The World of Glassware, "Welcome To The World Of Crisa".

12/ Supra, note 6.

13/ Id.

14/ Vitro, Sociedad Anonima, Annual Report 1988 at 13.

There is great pressure on Vitrocrisa to export glass products in order to sustain domestic production levels.15/

Commerce has discovered Mexico's low energy costs, which have been approximately 80 percent of the world prices, in past countervailing duty cases,16/ but has failed to find them countervailable because they are generally available for all industries in Mexico. This is also partly an explanation why Mexican producers are able to sell at irrationally low prices in the United States.

Indiana Glass is concerned about the onslaught of Mexican competition that duty-free treatment under the FTA will create. With their excess capacity and targeting the U.S. market, duty-free treatment under the FTA will result in further expansion of their facilities and devastation of the U.S. glassware industry.

VI. CONCLUSION

How can the U.S. glassware companies grow, prosper, compete with imports and plan for the future when they are threatened with disaster under the FTA? These negotiations are creating uncertainty, disruption and upheaval for the work force and companies. Future planning, investment and marketing strategy are impossible. The companies have incurred unnecessary extensive costs to defend themselves against three GSP proceedings in the last two years, the Uruguay Round, and now the FTA. As the massive glass furnaces wear out, plans must be made for replacement of those furnaces before anticipated permanent shut down. If the FTA includes reduction of glassware tariffs, any investment in domestic production capability would be imprudent. There is no future to plan for, no rational basis for investment in plant and equipment, and no effective marketing strategy when FTA eligibility could immediately allow tariffs to drop from 36 percent to zero on products that already sell substantially below the U.S. producer's lowest price and, in many cases, below cost of production.

For all of the above stated reasons, Indiana Glass urges Congress to require that all of the glassware classified under HTS 7013 be excluded from the FTA.

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15/ Supra, note 6. In discussing Mexico's float glass and float glass product exports to the United States, the ITC found that 85 percent are exported into the United States.

16/ See, for example, Carbon Black from Mexico, 48 Fed. Reg. 29566 (1983); also, see Potential Effects of Foreign Governments' Policies of Pricing Natural Resources, Inv. 332-202, USITC Pub. 1696 at 49-50 (May 1985).

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CRISA CORPORATION

GENERAL LINE ITEM STOCK STATUS

DATE: DEC-13-88

ITEM NUMBER	ITEM DESCRIPTION	QUANTITY ON HAND	ITEM PRICE
3684-000-0-33-401	A 11" SALAD BOWL	0	14.00
3688-000-0-00-012	A 9D SNACK TRAY	0	3.90
3688-000-0-33-401	A 9D SNACK TRAY	0	6.50
3686-000-0-00-012	A SNACK TRAY 2D	0	2.90
3686-000-0-33-401	A SNACK TRAY 2D	0	6.00
3791-000-0-01-401	B DOME	3,641	6.25
3794-000-0-00-006	A WHEELBURROW	9,772	2.25
3800-000-0-00-006	A PITCHER "PRESS PITCHER"	137,001	1.95
3800-000-3-00-006	A PITCHER " PRESS PITCHER"	0	1.95
3805-000-0-01-401	A MARIO PITCHER,90 OZ HANDBLOW	77,177	7.75
3805-000-0-22-401	A MARIO PITCHER,90OZ HANDBLOWN	9,109	8.75
3805-000-0-33-401	A MARIO PITCHER 90 OZ HANDBLOW	31,308	8.75
3807-000-0-01-401	A PUERTO VALLARTA PITCH, 90 OZ	14,326	7.75
3807-000-0-22-401	B PUERTO VALLARTA PITCHER	843	8.75
3807-000-0-33-401	B PUERTO VALLARTA PITCHER,90OZ	3,444	8.75
3810-000-0-01-401	A ACAPULCO PITCHER, 90 OZ	49,342	7.75
3810-000-0-22-401	A ACAPULCO PITCHER, 90 OZ	9,860	8.75
3810-000-0-33-401	A ACAPULCO PITCHER, 90 OZ	0	8.75
3823-000-0-01-401	B 69 OZ CANCUN PITCHER	82	8.75
3823-000-0-33-401	B CANCUN PITCHER	9,129	11.00
3839-000-0-00-006	A BAJA PITCHER	3,491	4.75
3844-000-0-01-401	A BAJA TANKARD, 64 OZ	4,133	7.75
3844-000-0-33-401	B BAJA TANKARD, 64 OZ	4,237	8.75
3846-000-0-01-401	B ENSENADA PITCHER	2,263	7.75
3846-000-0-22-401	B ENSENADA PITCHER	4,818	8.75
3879-000-0-01-401	A 78 OZ PITCHER	3,383	8.75
3891-000-0-01-401	A MONTERREY PITCHER, 90 OZ	22,330	7.75
3891-000-0-33-401	A MONTERREY PITCHER, 90 OZ	6,824	8.75
3942-000-0-01-401	A SANTIAGO PITCHER, 80 OZ	2,976	7.75
3942-000-0-33-401	B SANTIAGO PITCHER, 80 OZ	1,827	8.75
3943-000-0-00-006	A 86 OZ PITCHER	2,829	8.00
3943-000-0-33-401	A 86 OZ PITCHER	3,687	9.00
3944-000-0-33-401	B 99 OZ. CORAL PITCHER	1,072	13.00
3947-000-0-01-401	B SANJUAN PITCHER 88 OZ.	2,124	12.00
3947-000-0-33-401	B PITCHER	1,095	13.00
3948-000-0-01-401	B 90 OZ. CAPRI PITCHER	2	12.00
3948-000-0-33-401	B 90 OZ. CAPRI PITCHER	1,039	13.00
3949-000-0-01-401	B ARAGON PITCHER 90 OZ	9	12.00
3949-000-0-33-401	B ARAGON PITCHER, 90 OZ	1,299	13.00
3983-000-0-00-006	A PITCHER 360Z	34,443	3.25
4018-000-0-00-001	6BURNER	397	0.85
4082-000-3-00-012	B MUG, WHITE	280,190	0.90
4372-778-0-00-012	B CORONA 12 OZ BEER MUG	0	2.00
4497-000-0-00-012	B ACADEMY CARAFE 1/4 LITER	0	2.90
4497-000-0-00-036	B ACADEMY CARAFE, 1/4 LTR.	4,478	2.90
4498-000-0-00-012	B ACADEMY CARAFE 1/2 LITER	0	3.00
4498-000-0-00-024	B ACADEMY CARAFE, 1/2	1,807	3.00
4499-000-0-00-012	B ACADEMY CARAFE,1 LITER/33 OZ	6,967	3.90
5002-000-0-00-006	A 6" BUBBLE BALL	30,343	2.25
5003-000-0-01-401	A 12" BUBBLE BALL	4,529	9.00
5003-000-0-33-401	A 12" BUBBLE BALL	6,341	11.00
5005-000-0-01-001	A 16" BUBBLE BALL	492	23.75
5006-000-0-01-401	A 8" BUBBLE BALL	43,492	4.50

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CRISA CORPORATION

GENERAL LINE ITEM STOCK STATUS

DATE: FEB-14-89

ITEM NUMBER	ITEM DESCRIPTION	QUANTITY ON HAND	ITEM PRICE
2984-000-2-00-004	A FLARED TOP VASE	0	10.00
2985-000-2-01-401	B FLORAL VASE	68	10.00
2985-000-2-33-401	B FLORAL VASE	3,429	11.50
2990-000-0-01-201	A FLOWER VASE 12"	1,452	9.65
2990-000-0-33-201	A FLORAL VASE 12 "	2,061	11.00
2991-000-0-01-201	A FLOWER VASE 12 "	1,309	10.00
2991-000-0-33-201	A OPTIC FLORAL VASE 12 "	2,109	11.50
2992-000-0-01-401	B ENCHANTMENT LILY VSE 11 3/4"	4,818	9.50
2992-000-0-33-401	B ENCHANTMENT LILY VASE	1,334	6.50
2993-000-0-00-006	B DAHLIA OPTIC VASE 11 3/4	383	9.50
2993-000-0-33-401	B DAHLIA OPTIC VASE 11 3/4"	1,281	6.50
2997-000-0-01-401	B SNAPDRAGON OPTIC VASE 12"	1,880	7.15
2997-000-0-33-401	B SNAPDRAGON OPTIC VASE 12"	1,573	8.75
3[illegible]-000-0-00-001	C WATER BOTTLE, 5 GALLON	0	7.75
3[illegible]-000-0-00-001	C 5 GALLON WATER BOTTLE	18,926	7.75
3433-000-0-00-004	A CHATEAU BOWL	23,136	7.15
3433-000-0-33-401	A CHATEAU BOWL (3 PC SET)	3,572	9.75
3463-000-0-00-012	B CHATEAU NAPPY	13,909	1.80
3463-000-0-33-404	A CHATEAU NAPPY	7,201	9.00
3673-000-0-00-004	A 12" SALAD BOWL	1,925	12.00
3673-000-0-33-401	A 12" SALAD BOWL-3 PC SET	0	13.50
3674-000-0-00-024	A 5 1/2" NAPPY	10,438	3.20
3674-000-0-33-404	A NAPPY 5 1/2 "	1,028	14.30
3684-000-0-33-401	A 11" SALAD BOWL	0	14.00
3688-000-0-33-401	A 9D SNACK TRAY	0	6.00
3686-000-0-33-401	A SNACK TRAY 2D	0	4.00
3791-000-0-01-401	B DOME	3,126	6.25
3794-000-0-00-006	A WHEELBURROW	7,933	2.50
3800-000-0-00-006	A PITCHER "PRESS PITCHER"	137,100	2.25
3805-000-0-01-401	A MARIO PITCHER,90 OZ HANDBLOW	81,064	6.90
3805-000-0-33-401	A MARIO PITCHER 90 OZ HANDBLOW	14,312	8.00
3810-000-0-01-401	A ACAPULCO PITCHER, 90 OZ	66,399	6.50
3810-000-0-33-401	A ACAPULCO PITCHER, 90 OZ	8,785	8.00
3839-000-0-00-006	A BAJA PITCHER	14,471	5.35
3844-000-0-01-601	A BAJA TANKARD, 64 OZ	2,699	6.50
3844-000-0-33-401	B BAJA TANKARD, 64 OZ	4,007	8.00
3891-000-0-01-401	A MONTERREY PITCHER, 90 OZ	21,949	6.50
3891-000-0-33-401	A MONTERREY PITCHER, 90 OZ	3,261	8.00
3943-000-0-00-006	A 86 OZ PITCHER	3,432	7.75
3943-000-0-33-401	A 86 OZ PITCHER	3,666	9.95
3983-000-0-00-006	A PITCHER 360Z	33,947	3.50
4082-000-3-00-012	B MUG, WHITE	25,946	0.50
4380-000-3-00-012	A IRISH COFFEE MUG	0	1.48
4497-000-0-00-012	B ACADEMY CARAFE 1/4 LITER	3,268	2.15
4498-000-0-00-012	B ACADEMY CARAFE 1/2 LITER	385	2.50
4499-000-0-00-012	B ACADEMY CARAFE,1 LITER/33 OZ	4,863	2.85
5002-000-0-00-006	A 6" BUBBLE BALL	21,150	1.80
5003-000-0-01-401	A 12" BUBBLE BALL	6,914	5.75
5003-000-0-33-401	A 12" BUBBLE BALL	4,871	8.25
5005-000-0-00-001	A BUBBLE BALL 16"	2,082	19.65
5006-000-0-01-401	A 8" BUBBLE BALL	49,938	3.90
5006-000-0-22-401	B 8" BUBBLE BALL	13,727	5.75
5006-000-0-33-401	B 8" BUBBLE BALL	19,366	5.75

EXHIBIT 1

EXHIBIT 2
PAGE 1 OF 1

CONSUMER, SCIENTIFIC, TECHNICAL & INDUSTRIAL GLASSWARE
U.S. DEPARTMENT OF COMMERCE
DATA ON DOMESTIC INDUSTRY SHIPMENTS

Thousand Dozen Shipments: 1984-1988, Machine-Made

	1984	1985	1986	1987	1988
Tumblers	46,955	39,789	48,097	45,262	31,640
Stemware	13,069	11,362	11,887	11,161	10,447
Total Beverageware	60,024	51,151	59,984	56,423	42,087

	(decrease)
Tumbler Growth	
1984-1988	(32.6%)
1987-1988	(30.1%)
Stemware Growth	
1984-1988	(20.1%)
1987-1988	(6.4%)
Beverageware Growth	
1984-1988	(29.9%)
1987-1988	(25.4%)

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STATEMENT OF THE INTERNATIONAL LEATHER GOODS, PLASTICS AND NOVELTY WORKERS' UNION, AFL-CIO

LIKELY IMPACT OF A FREE TRADE AGREEMENT WITH MEXICO

TO THE

HOUSE WAYS & MEANS TRADE SUBCOMMITTEE

FEBRUARY 25, 1991

A. Introductior

The International Leather Goods, Plastics, and Novelty Workers' Union, (ILGPNWU) AFL-CIO, is headquartered in New York City. Nine thousand of our members live and work in the New-York-New Jersey metropolitan area. We have 3,000 Canadian members as well as members throughout the United States and Puerto Rico. Among other things, our members make handbags, luggage and personal leather goods (e.g., wallets, key holders).

The ILGPNWU is opposed to the initiation of negotiations with Mexico. An FTA with Mexico would result in the swift exodus of labor-intensive industries such as ours from the U.S. and result in a lowering of the standard of living for workers in U.S. manufacturing industries.

The disparities between the U.S. and Mexico are so immense (e.g., wages, environmental standards, safety requirements, degree of market openness) that a balanced agreement between two economies on such unequal planes is simply not achievable.

The U.S. Government's decision to forge ahead with FTA negotiations with Mexico should not be premised on the desire of the U.S. business community to exploit a ready and abundant source of cheap labor while flouting workers' rights, and environmental, health, and safety regulations. These standards have taken the better part of a century to achieve in this country. To permit the exploitation of Mexico's cheap wages, workers and environment by U.S. businesses seems a throwback to the era of the robber barons and colonialism at its worst. Tragically, it also means that a substantial portion of our work force -- the under-educated, low-skilled, and older blue collar workers -- who lose their jobs to Mexican workers will have no place to go. What provisions will be made for these people?

The displacement of a sizeable portion of the U.S. work force that would result from a U.S.-Mexico FTA will combine with other job losses that are the direct result of new and ongoing trade initiatives of this Administration, such as expanded trade provisions of the CBI, the Andean Initiative, the Enterprise for the Americas Initiative, and the Uruguay Trade Round. The effects of the improved market access features of these initiatives have not been fully assessed on U.S. employment in the industries that will be hardest hit by these programs. Has the Congress, the ITC or U.S. policy-makers even considered the cumulative effects of these programs on U.S. labor? Tunnel vision, or perhaps the needs

of U.S. policy-makers, gives rise to requests to weigh the economic impact of a U.S.- Mexico FTA, as bad as it may be, in isolation of these other trade and production-sharing initiatives. We encourage the Congress to expand its purview to encompass the impact of the full range of proposals currently being planned and implemented by the Bush Administration.

B. An FTA With Mexico Will Greatly Exacerbate the Already Substantial Unemployment In These Industries Caused by Developing Countries' Imports and Other U.S. Trade Programs

Since 1982, 14,200 jobs were lost in the luggage, handbag and personal leather goods industries, representing a decline in employment of at least 34 percent. This enormous job loss is directly linked to massive import surges in handbags, luggage and flat goods. (See Table 1.) The jobs lost in these industries are not high paying jobs nor are they held by people who are easily re-employed. Our members are minorities, women and immigrants. Many are under-educated and do not possess skills outside these industries. Although wages in these industries tend to be among the lowest of all U.S. manufacturing, Mexico's wages are still just a fraction of what U.S. workers earn in these industries.

Many FTA advocates dismiss concerns about the loss of jobs in these industries and the loss of the industries themselves, claiming that the law of comparative advantage dictates that the U.S. should be moving out of these industries and into areas where it has comparative advantage (e.g., technological superiority). It is comforting to FTA advocates to assume that workers who lose their jobs in these industries will move on to better jobs and opportunities, and the U.S. economy as a whole will be uplifted. But don't bet on it. According to a recent article that appeared in the Washington Post[1], Professor Robert M. Dunn, Jr. of George Washington University postulates that a U.S.-Mexico FTA:

> [W]ould also redistribute income away from unskilled and semi-skilled labor and toward professional and technical labor and capital. Because the "winners" would be people whose incomes are already above average, while the "losers" would start with below average incomes, this arrangement would make the distribution of U.S. incomes more unequal.

The reason for this is clear: With an under-employed population of about 90 million people Mexico can produce a lot of labor-intensive goods such as garments and shoes. As a result, U.S. wage rates for unskilled and semi-skilled labor would fall, while returns to capital and to professional and technical labor would rise. With respect to improved job prospects for these workers in the lower-skilled jobs, he states:

> Retraining laid-off workers, with the goal of making them high-income skilled workers, is often seen as the answer, but experience with such programs has been very disappointing. Most of the affected workers have limited educational backgrounds, and many are not young. Despite retraining efforts, they generally have ended up with lower incomes than in the jobs they lost.

Some estimates hold that almost a third of the U.S. work force falls into the semi-skilled and under-educated category.

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[1] "Low-Paid Workers Would Lose Even More in Free-Trade Pact With Mexico," The Washington Post, August 1, 1990.

3

Before the U.S. formally enters these negotiations with Mexico, we must fully comprehend the implications that this action will have on such an enormous number of U.S. workers.

C. A U.S.-Mexico FTA Would Draw Both U.S. and Asian Investors to Mexico and Also Result in Trade Diversion

It is fairly evident that a U.S.-Mexico FTA will result in U.S. companies shuttering their doors only to reopen them in Mexico where they can not only take advantage of cheap labor, and a lax regulatory environment, but guaranteed, preferential access to the U.S. market. What perhaps is not so evident is that Asian investors are already moving into Mexico with the same goals in mind. Thus, the same Asian producers that are flooding the U.S. domestic handbag, flat goods and luggage markets, will add a new and improved base of operations in Mexico to launch a second wave of Asian-financed goods to our market. Moreover, there will also be substantial trade diversion through Mexico of Asian goods. There is simply no way to prevent it.

However, even without the prospect of more Asian-financed and/or diverted imports via Mexico, Mexico, on its own, will pose a huge threat to our industries in the future. Kodak Mexicana's President Donald F. Spieler was quoted in a recent Business Week article as saying that: "By 2000, I see Mexico as being a Korea but with an even wider industrial base."

D. The FTA Will Likely Benefit Mexico At the Expense of American Workers

Clearly the disparities between our two economies make the concept of an FTA both unrealistic and unworkable. Mexico is a developing country and maintains a web of restrictive trade barriers. For example, Mexico requires import permits and licenses on some 200 products, encourages "buy national" policies in many sectors, has a poor track record on the protection of intellectual property rights, and maintains tight restrictions over foreign investments. Mexico also uses standards, testing and certification as well as registration and certificate-of-origin as non-tariff barriers on a variety of goods. In contrast the U.S. maintains relatively few non-tariff barriers.

The U.S. population is almost triple that of Mexico's with a much higher GNP of $5.23 trillion compared to the GNP of Mexico, which is $201 billion. The much larger, far richer U.S. market is thus a far more lucrative prize.

There is also a vast gulf in wages, working conditions and standards of living that make it difficult to conceptualize the integration of our two economies that an FTA is supposed to accomplish.

The negotiations are unlikely to bridge or even address these massive differences, making a balanced and enforceable agreement virtually impossible. Moreover, the U.S. has a poor track record of enforcing its FTA rights. The 1990 National Trade Estimate Report on Foreign Trade Barriers listed several areas where Israel was not living up to its obligations under the FTA (which took effect in 1985), including the levying of a purchase tax that has been "steadily offsetting duty reductions achieved under the FTA"; violations of Israel's import licensing agreement with the U.S. under the FTA; and the possibility that Israel may also be violating the terms of its FTA commitment to phase out certain export subsidy programs. This record leaves us with little confidence that the U.S. will treat Mexico's violations any differently.

There is also the concern that the U.S. will negotiate away or diminish U.S. industries' ability to seek redress from imports, which has been the case with both Canada and Israel. This limitation will be yet another blow to U.S. firms and workers.

E. Conclusion

A U.S.-Mexico FTA is not a good deal for U.S. workers. Before the U.S. gets too far down this road, Government officials need to understand the implications for U.S. labor, particularly those individuals who are not among our most employable. The U.S. Government also has the obligation to add into this equation the impacts of the many other trade initiatives of the Bush Administration on the livelihood of millions of U.S. workers.

TABLE 1

SELECTED ECONOMIC INDICATORS

Employment	Luggage (SIC 3161)	Personal Leather Goods (SIC 3172)	Handbags (SIC 3171)
1982	13,700	11,700	16,400
1983	12,900	11,100	15,000
1984	13,200	11,000	13,500
1987	11,300	8,300	8,100
1988	11,700	9,000	8,000
1989	11,700	9,000	6,700
Production/ Shipments	(million dollars)	(million dollars)	(million units)
1982	647.0	393.0	45.9
1983	676.0	419.0	43.1(E)
1984	713.0	405.0	40.1(E)
1987	817.0	412.0	31.9
1988(P)	822.0	394.0	28.1(E)
1989(P)	860.0	375.0	25.0(E)
Imports	(million dollars)	(million dollars)	(million units)
1982	334.9	87.4	164.0
1983	399.9	105.2	184.1
1984	563.8	134.3	199.5
1987	846.3	222.3	202.8
1988	837.5	249.9	193.4
1989	982.5	243.8	169.7
	Luggage (SIC 3161)	Personal Leather Goods (SIC 3172)	Handbags (SIC 3171)
Import Penetration**	(percent)		
1967			
1972			
1977			
1982	48(E)	26(E)	81
1983	51(E)	28(E)	83(E)
1984	58(E)	34(E)	85(E)
1987	64(E)	46(E)	87
1988(P)	64(E)	49(E)	88(E)
1989(P)	67(E)	50(E)	88(E)

** For the luggage and personal leather goods industries, where import and domestic production data are available only in terms of value, import penetration has been estimated to reflect estimated penetrations in terms of units.

(E) -- Estimated.

Source: Based on U.S. Department of Commerce, International Trade Commission, and Bureau of Labor Statistics data.

IMRA International Mass Retail Association, Inc.

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(202) 861-0774
Fax # 202-785-4586

February 25, 1991

The Honorable Sam Gibbons
Chairman
Trade Subcommittee
Ways and Means Committee
U.S. House of Representatives
1136 Longworth HOB
Washington, D.C. 20515

Dear Mr. Chairman:

I am writing on behalf of the International Mass Retail Association (IMRA) to express our general support for the beginning of negotiations to create a U.S.-Mexico Free Trade Agreement. By way of background, IMRA is a trade association representing 100 major discount retail chains whose sales represent an overwhelming majority of the $130 billion a year discount retail industry. Our members collectively operate over 30,000 stores in all fifty states and employ millions of Americans.

IMRA strongly supports the negotiation of a comprehensive agreement with Mexico that covers not only tariff and non-tariff measure reductions, but would create a more open environment for services and investment. Some of IMRA's members either own Mexican subsidiaries or have expressed a strong interest in expanding retailing operations into the Mexican market.

In particular, we would hope that negotiations would focus on transportation services issues which are of critical concern to the U.S. distribution industry, including retailing. In the past, as you know, it has been difficult to ship merchandise via truck from distribution centers in the United States to stores operating in Mexico. Although the trucking situation has improved somewhat within the free zone on either side of the border, we do not as yet have a truly integrated transportation system where goods can move freely from one country to another, without a change of trailer, tractor or driver.

This point is of grave importance, not only to the retailing sector, but to many U.S. manufacturers with whom our members do business. Improving the opportunity for U.S. retailers to open establishments in Mexico improves the ability of U.S. manufacturers to export products to that market. In effect, the retail outlet becomes the conduit for U.S. exports. If transportation policies cannot be made more efficient -- to minimize the costs and delays in moving merchandise, and to accommodate retailer and vendor "just in time" partnerships -- that potential for both U.S. service and manufacturing sectors will not be realized.

In addition, of course, we would hope that the U.S. would negotiate an investment agreement that will continue to liberalize and formalize open investment policies within Mexico. In particular, retailers are interested in formalizing recent Mexican liberalizations that have eliminated local equity requirements which make it difficult to establish stores in that country.

Finally, of course, IMRA members also import merchandise and see a great potential benefit for our customers -- the average American -- in efforts to reduce tariff and non-tariff barriers to trade. In particular, we certainly hope that Congress will not attempt to limit the negotiations in this vital area of market access to exclude negotiations on textiles, apparel or footwear.

If you have any questions about IMRA or its views on this matter, please feel free to contact me or Ms. Robin W. Lanier, Senior Legislative Representative at 202/861-0774.

Sincerely,

Robert J. Verdisco

Robert J. Verdisco
Vice President
Government Relations

RJV:rwl

STATEMENT OF
WILLIAM H. BYWATER, INTERNATIONAL PRESIDENT
INTERNATIONAL UNION OF ELECTRONIC,
ELECTRICAL, SALARIED, MACHINE AND
FURNITURE WORKERS, AFL-CIO (IUE)
before the
SUBCOMMITTEE ON TRADE,
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
on
THE PROPOSED NEGOTIATION OF A FREE TRADE AGREEMENT WITH MEXICO

FEBRUARY 20 and 21, 1991

Members of the Subcommittee, I am William H. Bywater, President of the International Union of Electronic, Electrical, Salaried, Machine and Furniture Workers (IUE), AFL-CIO. On behalf of the American workers represented by the IUE, I appreciate the opportunity to submit this statement on the Bush Administration's proposal to negotiate a "free trade" agreement among the United States, Mexico and Canada. The officers and members of the IUE concur with the view expressed earlier before this Subcommittee by the AFL-CIO and other parties that this agreement would be an economic disaster for American workers and their communities. We, therefore, urge the U.S. Congress to block the approval of any such agreement.

The IUE represents production and maintenance workers in a wide spectrum of industries, including the electrical-electronics, transportation, fabricated metal, power-generation equipment, and automotive parts industries. At one time, our union had 360,000 members. Today we have 165,000. Our membership's dramatic decline is due, in large part, to our members having been displaced, as their employers cut back or totally shut down their American operations in favor of offshore lower wage labor markets. U.S. trade "policy" has only fostered this corporate investment strategy. The United States has already lost entire industries -- the radio and black and white television industries are but two examples -- and many other industries are rapidly following their path to extinction. While millions of American homes now contain color televisions, compact disc players, major appliances, and other electronic and electrical goods with American brand names, the majority of these products are no longer made in this country. While a vast U.S. market, hungry for these goods, has contributed to the profits of many American corporations, these profits have not translated into domestic employment. The U.S.-based consumer electronics and appliances industries have become mere fractions of what they once were. And, it is those American workers who remain employed in these industries who will become among the most "endangered of species" if a free trade pact with Mexico is approved by the U.S. Congress.

Proponents of a free-trade agreement ("FTA") would have the Congress and the American public believe that it will be good for American workers and the domestic economy. They suggest that by providing incentives for companies to move basic manufacturing to Mexico, the FTA will help to maintain higher paying jobs here at home. This argument, however, is specious and it obscures the real reason that this pact has such avid supporters. Those supporting this agreement expect to benefit economically from the exploitation of Mexico's cheap labor and lax, or non-existent, governmental regulation. While the agreement will surely boost the profits of many American-based companies, it will cause irreparable harm to the millions of American workers who will, consequently, lose their jobs.

There is nothing new about U.S. companies moving abroad for cheap labor. Any argument that a free trade pact will benefit the domestic economy is contradicted by two decades of experience with the "maquiladora" program. The "Maquiladoras" are assembly plants that have been established in Mexico by foreign corporations. Approximately ninety percent of the "maquilas" are owned by U.S.-based corporations, and the products from the plants are sold in the United States. Maquila workers are paid the abysmal wage of 60 to 70 cents an hour.

Electronics manufacturing and assembly constitute the third largest Maquila industry. In Mexico's northern border region, maquila workers assemble a wide variety of products which are made -- or were once made -- in the U.S. by IUE members. These products include radio and TV components, electrical and electronic sub-components, auto parts and components, household appliances, transformers and furniture. During the past decade, companies such as Bendix, Chrysler, General Electric, General Motors, Litton Industries, North American Philips, RCA, Sylvania, United Technologies, Westinghouse and Zenith abandoned assembly operations in this country and relocated them across the Rio Grande. The result has been job loss for hundreds of thousands of U.S. workers and economic devastation for many communities.

Our experience with the maquiladora program offers just a sample of what American workers may expect from a free trade agreement with Mexico. Such an agreement would vastly expand the territory from which companies could recruit low-wage workers. A free trade agreement would also greatly increase opportunities for multinational corporations to circumvent U.S. laws and regulations intended to protect workers and the environment. An FTA would facilitate the creation, in our own backyard, of a manufacturing zone where companies could operate free of the social, economic and ethical restrictions which are operative in the United States.

At the present time, a widespread practice of American-based firms in our industries is to make components of a product here, ship them to their maquila plants over the border for assembly, and then return the finished product to this country for sale. Currently, about 95% of the components used in the maquilas are produced in the U.S. A recently issued study by the U.S. International Trade Commission concludes, however, that the proposed pact would allow Mexico to produce more of the component parts for use in the maquiladoras. Such a shift would mean the exportation of even more jobs from this country.

Five years ago, I testified before the House Banking Subcommittee on Economic Stabilization regarding American trade and investment with Mexico. At that time, U.S. firms had invested nearly $2 billion in the maquilas, and we had lost nearly 300,000 American manufacturing jobs. Since 1986, many American-based companies have expanded their existing operations in Mexico, and many new companies have begun investing there. There are now some 2,000 maquilas along the border, and they employ nearly 500,000 Mexican workers. U.S. automobile firms today operate more technologically sophisticated plants in Mexico than they do at home. Much of California's furniture industry has relocated to Tijuana, Mexico.

General Dynamics, one of America's largest defense contractors, announced plans earlier this year to open a 200 worker plant in Tijuana to produce electrical components for its defense-related products. This announcement highlights a concern of our union that goes beyond considerations of domestic employment. Our collective bargaining experience with many of this nation's largest defense contractors, as well as with smaller defense suppliers and parts manufacturers, tells us that the capacity of the United States to maintain a viable defense industrial base within our own borders is being threatened by current investment patterns. Defense contractors are among the many corporations seizing the opportunity to improve their already healthy profitability by exploiting cheap Mexican labor. The folly of depending on foreign sources for our military defense should be self-evident.

The domestic repercussions of investment abroad are already being felt. The number of workers officially counted as unemployed reached 7.7 million in January of this year. When the millions of workers who have been forced to accept part-time employment and those who are too discouraged to continue their search for work are also counted, the total number of Americans suffering from partial or total income loss is a staggering 14.4 million. Moreover, less than half of those "officially" unemployed were drawing jobless benefits at the end of last year.

In the manufacturing sector, employment declined by 70,000 in the first month of the year, continuing a downward trend. A total of 900,000 jobs have been lost since the beginning of 1989. The U.S. manufacturing sector shrank from 23% of domestic employment to only 18% between 1979 and 1990.

Our members are outraged that the Bush Administration is insisting on forging ahead to negotiate an FTA with Mexico against this backdrop of recession, job loss, and increasing demands from employers that U.S. workers moderate their expectations of wage and benefit improvements. We are also dismayed that the Administration is seeking fast track authority for the negotiations. The ramifications of this proposal are far too broad and serious for it to be negotiated without the full involvement and input of the Congress. The following are but a few examples of the adverse impact that our economic relationship with Mexico has already had on IUE members:

1. IUE Local 748, Jefferson City, Tennessee: In 1978, with over 2,000 production workers, the North American Phillips Consumer Products Division ("NAP") was one of the largest employers in this rural area of Eastern Tennessee. IUE members made electronic components for televisions and video games, as well as television cabinets for Magnavox, Philco and Sylvania. In 1982, the company shifted production of a popular new high-tech product, the Odyssey video game, and laid off 950 of their Jefferson City workers. Eight hundred jobs were relocated to Mexico and 150 jobs went to another NAP facility in the United States. Why? With wages at only $5.40 an hour, NAP was hard-pressed to argue that its labor costs were making it unprofitable. Indeed, the company did not even try to seek wage concessions from the local union because it realized that even at minimum wage, the Tennessee workers could not possibly compete with Mexican workers. In Mexico, NAP could pay their workers just 65 cents an hour -- $5.20 a day.

In 1986, when I testified before another Congressional Committee, IUE represented 840 workers at this local. By that time, the employees no longer did any electronic component manufacturing; the Jefferson City plant made only television cabinets. All of the electronic components that go into the cabinets were already being assembled in Mexico. And, when it was time to renegotiate our collective bargaining agreement, the company repeatedly "reminded" us of their seven plants in Mexico.

Today, the membership of IUE Local 748 has shrunk to 550. Two months ago, local NAP management bid on a contract for 30,000 console television cabinets for Curtis-Mathis. The contract they received was for only 6,000 projection TV cabinets -- the other 24,000 cabinets are going to be made in Mexico.

2. IUE Local 849, Evansville, Indiana: In 1986, the IUE represented 850 Zenith workers at the company's two plants in Evansville, Indiana. Today, we no longer represent any Zenith workers in Evansville because both plants have been completely closed down. The work was moved to Mexico. One thousand hourly and salaried Evansville workers lost their jobs, devastating many families and the community. Among those who lost their jobs were workers who had been with Zenith for more than 20 years.

3. IUE Local 717, Warren, Ohio: In 1973, IUE represented some 13,000 production workers at the General Motors, Packard Electric Division ("GM") in Warren. In 1974, GM moved 2,200 jobs to two new non-union plants in Mississippi, and began to build three new plants in Juarez, Mexico. By 1975, the Mexico plants were completed with a workforce of 7,000. By 1986, GM's Packard Division had seven plants along the Mexican border with more than 15,000 workers. Meanwhile, employment at the Warren, Ohio facility had shrunk to 9,000. Today, GM has twenty-four manufacturing plants in Mexico with 11,100 work stations and 23,700 workers. Only 8,200 jobs remain in Warren.

4. IUE Local 463, Brooklyn, New York: The Parker Hannifan (Ideal Clamp Division) shop in Brooklyn, New York is now closed. In the early 1980's, there were 600 workers employed there. Then the company opened a plant in Matamoros, Mexico and 300 American workers lost their jobs. In 1986, the company closed down what was left of the Brooklyn plant.

5. IUE Local 255, Pittsfield, Massachusetts: Fifteen years ago, General Electric ("GE") employed some 15,000 workers in Pittsfield. By 1987, employment was down to 5,000. Today, only 1,000 hourly jobs remain. In September of last year, another 60 jobs -- wiring jobs for a defense project, the Aegis Director -- were lost to Mexico. The reason given by the company? GE claimed it was more competitive to have the work done there, rather than pay $12.00 an hour to American workers.

6. IUE Local 731, Memphis, Tennessee: IUE members at this G.E. plant assemble all types of lights for automobiles, i.e. automotive head lamps, directional signals, and brake lights. In 1989, some 400 workers were employed at this plant, with assemblers making an average of $10.00 per hour, and inspectors averaging $17.00 per hour. Between May and June of 1990, forty-four workers, all of them women, were laid off. Their jobs went to a G.E. plant in Acuna, Mexico. Shortly thereafter, the company announced that it was moving six additional jobs to Mexico.

7. IUE Local 806, Kirkland, Indiana: IUE members at AES Interconnects in Kirkland, Indiana make wire harnesses for auto suppliers and earn $5.00 an hour. All of the IUE members at this plant are women; some of them are single mothers. In October, 1990, twenty-eight people were employed at this plant. In November, when a customer chose to shift a $45,000 order to another company with a manufacturing facility in Delanosa, Mexico, the workforce was reduced to fourteen. Then, in December, two more women lost their jobs. The company's explanation was reduced demand.

8. IUE Local 840, Troy Illinois: Since 1982, membership at IUE Local 840, Basler Electric, has declined as $7.50 per hour jobs have been relocated to Reynosa and Matamoros, Mexico. The company has moved the entire magnetics assembly operation, e.g. transformers, to Mexico. While Basler Electric currently provides 430 jobs, local union officers estimate that there would now be a total of 650 jobs at this plant, but for the transfer of the magnetics work to Mexico.

9. IUE Local 826, Bloomington, Indiana: IUE represents 700 employees making an average wage of $ 10.00 per hour at the Otis Elevator facility in Bloomington. Last year, the company transferred its wire control parcel work to Mexico. Between twenty and thirty jobs were lost. On January 1, the company laid off fifty more people, citing the current downturn in the economy. All of these people remain out of work.

10. IUE Local 1010 FW, Los Angeles, California: In April 1990, IUE negotiated its first contract with Chair Factory, Inc. The agreement provided for an average hourly wage of $7.50 for the forty-five production workers. Six months into the contract, the company cited economic hardship and transferred 30 jobs to a subcontractor in Tijuana, Mexico.

Our union could provide this Subcommittee with many other examples of IUE members who have lost their jobs because their employers either moved production to Mexico or were forced to close because they were unable to compete with other companies already producing in Mexico or other low-wage havens abroad. There are, in addition, thousands of other IUE members and other American workers who have been forced to accept inferior wage and benefit agreements because their employers have threatened to move even more jobs to Mexico.

A free trade pact with Mexico will only increase unemployment and exacerbate the existing inequities in income distribution. Such an agreement will give American-based corporations a "green light" to shift more and more work out of this country. It will further discourage domestic investment in technology, machinery, and worker education and training. For all of the above reasons, the IUE strongly urges the Congress to reject an FTA with Mexico.

STATEMENT OF

THE LUGGAGE AND LEATHER GOODS MANUFACTURERS OF AMERICA, INC.

TO THE SENATE COMMITTEE ON FINANCE

ON U.S.-MEXICO FREE TRADE AGREEMENT NEGOTIATIONS

February 25, 1991

The Luggage and Leather Goods Manufacturers of America (LLGMA) is a trade association representing the domestic industry producing and selling luggage, business cases, and flat goods. The LLGMA's members account for over three quarters of all sales of these products in the United States. The LLGMA opposes the negotiation of a free trade agreement between the United States and Mexico.

This opposition is based primarily on the adverse impact that such an agreement can be expected to have on the domestic industry. This industry is already import-sensitive as a result of a decade of rapid import growth, which caused significant losses of production and employment. While most of this import growth has been and continues to be from Far East suppliers, Mexico has become a major supplier and has the potential to increase significantly. Textile luggage and flat goods are currently under a designated consultation level negotiated between the United States and Mexico, which provides a modest restraint on rapid growth in imports from that source. This alone reflects the import-sensitivity of the U.S. industry and the U.S. government's recognition of this sensitivity.

At the same time that the United States represents a large market that Mexico could exploit in large volumes, the domestic industry does not see any similar opportunity in the Mexican market. Mexico's economy is only 3.6% of the size of the United States' economy. This holds little promise that reciprocal benefits will accrue to the United States if a free trade agreement is concluded.

The move to open up the U.S. market to Mexico on very preferential terms relative to other countries comes at a time when this industry is being adversely affected by the slowdown in the U.S. economy. As shown in the attached table, employment in 1990 has fallen significantly, after holding steady in 1989. The steady employment in 1989 was a rare and welcome respite from the steady attrition that had affected the industry during the previous decade.

This stable condition in 1989 had resulted from the impact of the decline in the U.S. dollar and the belated, but finally significant, impact of the bilateral restraints on textile luggage imports from the PRC. However, the downturn in the economy has prevented the industry from gaining from the modest pause in increases in import competition.

This progress in slowing import-related attrition would be undercut by opening up the U.S. market on preferential terms to another very low-wage supplier. Moreover, it would hamper the ability of the industry to cope with the poor economic conditions it now faces. As a result, the LLGMA is opposed to the negotiation of a free trade agreement with Mexico.

EMPLOYMENT IN THE LUGGAGE, BUSINESS CASE, AND FLAT GOODS INDUSTRIES, 1988-1990
(number of employees)

	Luggage and Business Cases (SIC 316)	Flat Goods (SIC 3172)
1988	11,700	9,000
1989	11,700	9,000
1990 (E)	10,300[1]	8,700[2]

[1] Based on employment levels as of October 1990, the latest data available from Employment and Earnings, Bureau of Labor Statistics.

[2] Based on unpublished data for August 1990 from the Bureau of Labor Statistics for SIC 3172, the latest data available.

Statement of Mexican Frozen Vegetable Processors on the U.S.-Mexico Free Trade Agreement

Before the Committee on Ways and Means, U.S. House of Representatives

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Introduction

These comments are submitted on behalf of seven[1/] independent Mexican frozen vegetable processors, located in the Bajio region of Mexico, in support of the proposed Free Trade Agreement between the United States and Mexico, and to request an accelerated phase-out of import duties presently imposed on imports of frozen vegetables into the United States from Mexico because of the extremely high rate of these duties. Of particular concern are those frozen vegetables subject to 17.5 percent or 25 percent rates of duty, which include frozen broccoli, cauliflower, and okra, as well as frozen spinach.

As the major U.S. food processors have begun to realize the benefits from multiple sourcing, the importance of Mexico as a source of frozen produce into the United States has increased. It must be emphasized that unlike the case of many products imported into the United States, Mexican exporters of frozen vegetables did not come to the United States in search of a market. Instead, the U.S. market (or more precisely, the U.S. multinational food companies) came to Mexico in search of additional sources of supply. By the late 1970s, most of these multinational food companies had realized that being dependent upon supply from a single geographic source, i.e., California, was extremely risky, and they began to diversify their sourcing to other areas in the United States, and Mexico. Not only did they source from Mexico, but many established their own freezing operations in Mexico, which now account for significant percentage of Mexico's exports to the U.S. market. Besides reducing risk, this also permitted a greater ability to source product on a 12-month basis.

Since production of vegetables is dependent upon seasonal and climatic conditions, to ensure a year-round supply of any given item, a variety of sources must be tapped. The more options there are in terms of sourcing, the more reliable the supply of these vegetables becomes. Mexico has, in recent years, become a particularly important source of vegetables for U.S. processors, and the U.S. market generally, due to its proximity to the United States and to seasonal and climatic differences between the two countries.

Mexican exports of the frozen vegetables at issue herein play an important role in the U.S. market, allowing food processors to take advantage of the availability of these vegetables from Mexico at time when they are in short supply in the United States. Sourcing from Mexico enables U.S. producers

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1/ Congelados Don Jose, S.A. de. C.V., of Leon, Mexico; Covemex, S.A. de C.V., of Celaya, Mexico; MAR BRAN, S. de R.L. de C.V., of Irapuato, Mexico; Expohort, S.A. de C.V., of Queretaro, Mexico; Vegetales Congelados, S. de P.R., of Irapuato, Mexico; Expor-San Antonio, of Celaya, Mexico; and Empacadora de Hortalizas del Bajio, S.P.R.R.L., of Guanajuato, Mexico.

to operate their facilities year-round, rather than having to tie their production to the crop schedule in the United States. With access to Mexican crops, producers can turn to Mexican growers, or to other production areas in the United States, as areas in the United States pass their peak production periods. By geographically varying the source of their raw vegetables, U.S. processors reduce the risk that erratic weather patterns resulting in crop damage in any particular growing region will have a significant impact on supply in the United States.

A large portion of the frozen vegetables imported from Mexico consist of frozen broccoli or cauliflower. For many years, California growers dominated the market for frozen broccoli and cauliflower. As recently as 1979, California accounted for 100 percent of all frozen broccoli packaged in the United States, and for fully 95.1 percent of all shipments of frozen broccoli nationwide. California also dominated the market for frozen cauliflower, accounting for about 70 percent of shipments in the United States during the early 1980s. See Runsten and Moulton, "Competition in Frozen Vegetables," Competitiveness At Home And Abroad: Report Of 1986-87 Study Group On: Marketing California Specialty Crops: Worldwide Competition And Restraints, at 37 (June 1987).

Over the past few years, demand for broccoli and cauliflower has increased tremendously with changing consumer tastes, changing demographic trends, and changing marketing techniques, and with this growth, the importance of product imported from Mexico and product from other regions in the United States has grown as well. However, in the latter part of the 1980s, California remained the single largest source of frozen broccoli in 1986, compared to total Mexican production of 110 million pounds.

The increased demand for frozen broccoli and cauliflower is evident from production figures for the past decade. Total acreage in the United States under production for broccoli and cauliflower increased by 89 percent (from 68,300 to 120,093 acres) and 64.6 percent (from 41,500 to 68,400 acres), respectively, between 1976 and 1986. This increase is attributable in part to increases in production in California, where broccoli acreage increased by 65.2 percent and cauliflower acreage by 58.7 percent between 1978 and 1986. The remainder of the increase is due to expansion in other parts of the country. During this period, cultivation was introduced in a number of regions outside California, including Maine, New York, Illinois, Colorado, Virginia, North Carolina, South Carolina, and Oklahoma. Production also increased dramatically in Texas, Oregon, and Arizona. See Cook and Amon, "Competition in the Fresh Vegetable Industry", in Competitiveness At Home And Abroad, supra at n.3.

It is important to note that much of the growth in demand for broccoli and cauliflower has resulted from an increased demand for high quality cuts and for gourmet food generally. Broccoli and cauliflower of the necessary quality for these applications can only be achieved through hand-cutting the vegetables. U.S. food companies have not been able to source hand-cut product economically in the United States, and have looked increasingly to sources abroad, especially Mexico, for product. This permits the companies to obtain these desired cuts at an acceptable cost, and also accords nicely with their efforts to minimize the economic risks inherent in this industry by geographically diversifying their sources of supply. The Mexican processors have specifically focused their production efforts on the segment of the market calling for labor-intensive hand-cut product, realizing that they can serve this market more

efficiently than U.S. processors. U.S. processors continue to produce econmically, and profitably, those larger cuts where mechanized cutting is feasible. Mexican producers, however, can profitably hand-cut the crops, producing the frozen broccoli spears, broccoli and cauliflower florets, singlets, and other small cuts used in the frozen gourmet dinner industry.

Even with the growing popularity of gourmet cuts, according to the International Trade Commission, California, traditionally the largest producer of these vegetables, remains "very competitive in the U.S. market for...frozen...broccoli and cauliflower." See Competitive Conditions In The U.S. Market For Asparagus, Broccoli and Cauliflower, supra at xi. U.S. producers have maintained their dominance in the U.S. market by continuing to supply those segments of the domestic market which do not call for hand-cut produce.

We would further note that although imports of frozen broccoli and cauliflower from Mexico have increased over the last five years, U.S. procesors, although losing market share in a growing market, have increased their production and sales during this period. While the California growers and processors find it convenient to blame imports from Mexico for the loss of their nearly monopolisitc position in the frozen broccoli and cauliflower market from the early part of the 1980s, part of this market share has gone to U.S. processors located in other areas of the United States, not to imports.

Despite the greater efficiency with which Mexican processors produce certain cuts of frozen vegetables, they continue to face tremendous competitive disadvantages in the U.S. market. The stigma of being "foreign" is an increasingly serious problem for Mexican growers as concern grows among U.S. consumers over food safety, and specifically over the use of pesticides and the presence of pesticide residues. Over the years, allegations have been made that Mexican (and other) imported produce is somehow more likely to contain harmful pesticides than is produce grown in the United States, often by U.S. growers and processors who knew these allegations were false. These allegations were clearly and convincingly refuted by the ITC in its 1988 investigation into Mexican broccoli and cauliflower production. The ITC "has uncovered no evidence of improper use of chemicals [as pesticides or herbicides] in either U.S. or Mexican industries," and found the use of pesticides and herbicides by U.S. and Mexican growers to be "roughly similar." Competitive Conditions In The U.S. Market For Asparagus, Broccoli, And Cauliflower, supra at 6-10. The ITC cited the testimony of the Food and Drug Administration which stated that between 1984 and 1988, of the hundreds of samples of Mexican broccoli and cauliflower tested for pesticide or herbicide residue, not one was found to be violative. Id. at 6-12.

Many Mexican processors supply product to U.S. multinational companies, which, prior to sourcing from Mexico, ensure that their Mexican suppliers meet the same rigorous standards imposed on their U.S. suppliers. Once having started sourcing from a Mexican grower, these companies monitor their imports to ensure continued compliance with these standards. Additionally, Mexican growers and processors are well aware of the disastrous impact on their business in the United States if they were found to be using illegal pesticides, or applying legal pesticides improperly, and therefore are very careful to ensure pesticides are used in strict compliance with U.S. Government standards. In spite of the facts, however, consumer perception (or, more accurately, misperception) plays an important role in this industry and the continuing public allegations concerning the

safety of Mexican vegetables -- although without any factual basis -- has the potential to do great damage to Mexican growers and processors.

The claim that Mexican processors have a competitive advantage over U.S. processors because they need not comply with the host of regulatory requirements imposed by various U.S. Government agencies is incorrect. We note that almost all of the regulatory requirements imposed by the U.S. Department of Agriculture, the Food and Drug Administration, and the Environmental Protection Agency must also be complied with by Mexican growers and processors in order to sell their product in the U.S. market. Additionally, as previously noted, the multinational food companies impose the same standards on, and require the same quality from, Mexican processors as they do U.S. processors. These standards are generally much more rigorous than those imposed by U.S. Government agencies. Further, the Mexican processors (or U.S. importers of their product) must also deal with the U.S. Customs Service, and with the myriad regulations with which imported agricultural products must comply.

The costs involved for Mexican growers and processors to import the necessary fertilizers, herbicides, pesticides, etc. from the United States are significantly greater than the costs incurred by U.S. growers. Additionally, Mexican processors now pay more for energy and fuel than their counterparts in the United States. Even the benefit from the transfer of U.S. technology to Mexican processors has been a mixed blessing, as the machinery and equipment which they use must be imported from the United States, and costs the Mexican processors much more than U.S. processors would have to pay for the same machinery and equipment. The transportation infrastructure in Mexico is much less sophisticated than in the United States, and the telecommunications systems significantly more costly. Interest rates are substantially higher in Mexico than in the United States, adding to the higher price Mexican growers/processors must pay for pesticides, herbicides, machinery and equipment. These additional costs also result in Mexican processors paying, on the average, a much higher price for raw produce to growers than do processors in the United States. All of these factors are competitive disadvantages Mexican processors face vis-a-vis their U.S. counterparts, which the reduction and eventual elimination of import duties would help to offset.

Further, the production capacity of the Mexican processors is limited, and is subject to very real restraints. The ability of the Mexican processors to ship product is proscribed by severe shortages of agricultural land and water in Mexico, both necessary components for growing the raw produce required for the processing operations. Such limitations, imposed by nature, are not readily susceptible to remedy.

The reduction, and eventual elimination, of import duties on frozen vegetables from Mexico under a Free Trade Agreement would not adversely affect U.S. frozen vegetable processors. The Mexican product already faces a multitude of competitive disadvantages vis-a-vis U.S. producers, and the duties imposed on imports -- especially at the 17.5 percent and 25 percent levels -- serve only to increase the cost of the product to the U.S. consumer. We would further note that these extremely high duties have prevented Mexican processors from diversifying their production, which is heavily concentrated towards frozen broccoli and cauliflower. Recent attempts by certain Mexican processors to export frozen spinach and okra, which would result in less production of frozen broccoli and cauliflower (as all production is on the same equipment), have been hindered by the 17.5 percent

import duty on these products. Duties at the 17.5 percent and 25 percent level make entry into new product areas extremely difficult, and deter many Mexican processors from attempting to diversify their production and exports to the United States (which, if successful, would reduce Mexican exports to the U.S. market of frozen broccoli and cauliflower).

For all of the reasons discussed herein, we urge that the import duties imposed on frozen vegetables from Mexico -- especially those at the 17.5 percent and 25 percent levels -- be subject to accelerated reduction under any Free Trade Agreement negotiated between the United States and Mexico (and Canada).

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Statement of The Mexican National Citrus Processors Association on the U.S.-Mexico Free Trade Agreement

Before the Committee on Ways and Means, U.S. House of Representatives

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I. INTRODUCTION

This statement is submitted on behalf of The Mexican National Citrus Processors Association to set forth its views on the likely impact of a Free Trade Agreement with Mexico on the orange juice industry in the United States. The Mexican National Citrus Processors Association, which produces frozen concentrated orange juice for manufacturing and single strength orange juice, files these comments to urge that frozen concentrated orange juice for manufacturing and single strength orange juice from Mexico be accorded unconditional duty-free treatment at the time of the implementation of a Free Trade Agreement. Such action would have no adverse impact on the U.S. orange juice industry. It would, in fact, actually work to the benefit of the U.S. industry by reducing its reliance on frozen concentrated orange juice from Brazil, thereby weakening somewhat the overwhemingly dominant role played by the Brazilians in the U.S., and world, frozen concentrated orange juice markets.

II. PRODUCT DESCRIPTION

A. Frozen Concentrated Orange Juice

Frozen concentrated orange juice is classified under HTS subheading 2009.11.00. The product at issue herein is frozen concentrated orange juice with a concentration level of 65° Brix, which is known as frozen orange juice for manufacturing. The imported product is sold mainly to U.S. juice processors, who use it to produce frozen concentrated orange juice and/or chilled reconstituted orange juice for sale to consumers in the United States. Frozen concentrated orange juice for manufacturing can be sold in the retail market in two forms: either diluted with water down to 42° Brix and sold as frozen concentrated orange juice, or diluted down to 11.8° Brix and sold as ready to serve orange juice.

Frozen concentrated orange juice is produced by extracting the juice from oranges, evaporating the natural moisture from this juice until a desired level of concentration is reached, and then freezing the concentrated juice. The majority of imported frozen concentrated orange juice is blended with domestic product before it is sold in the United States. All of the product imported from Mexico is blended with frozen concentrated orange juice sourced from Florida and/or California, and/or Brazil, by juice processors in the United States.

Frozen concentrated orange juice is classified under HTS subheading 2009.11.00 (Orange juice: frozen) and is dutiable at a rate of 9.25¢/liter. This duty was imposed more than 40 years ago, and has provided protection to the U.S. orange juice industry ever since. Because this is a specific tariff rate, its ad valorem equivalent rate will vary with the price of the frozen concentrated orange juice. Since 1985, the ad valorem equivalent rate has ranged between 27 percent and 62 percent, abnormally high by whatever measure. Frozen concentrated orange juice enters the United States duty-free under the Caribbean Basin Economic Recovery Act. The product is presently dutiable at

7.4¢/liter under the U.S.-Canada Free Trade Agreement. Under the TSUS, frozen concentrated orange juice was classified under item 165.29.

B. Single Strength Orange Juice

Single strength orange juice is produced by extracting the juice from the fruit. Sometimes it is pasturized, and it is stored at low temperatures. It is not concentrated. Single strength orange juice is classified under HTS subheading 2009.19.20, and is subject to a rate of duty of 5.3¢/liter. Single strength orange juice enters the United States duty free under the Carribean Basin Economic Recovery Act, and is currently subject to a 4.2¢/liter duty under the U.S.-Canada Free Trade Agreement.

III. THE DESIGNATION OF FROZEN CONCENTRATED ORANGE JUICE FOR MANUFACTURING AND SINGLE STRENGTH ORANGE JUICE AS UNCONDITIONALLY DUTY FREE AT THE TIME OF IMPLEMENTATION OF A FREE TRADE AGREEMENT WITH MEXICO WOULD NOT ADVERSELY AFFECT THE ORANGE JUICE INDUSTRY IN THE UNITED STATES, AND COULD HELP TO REDUCE THE U.S. INDUSTRY'S DEPENDENCE ON IMPORTS FROM BRAZIL

We respectfully submit that under the terms of any Free Trade Agreement negotiated with Mexico, frozen concentrated orange juice for manufacturing, classified under HTS subheading 2009.11.00, and single strength orange juice, classified under HTS subheading 2009.19.20, should be designated as being unconditionally duty free from the date on which the Agreement is implemented. Immediate duty-free treatment for frozen concentrated orange juice for manufacturing and single strength orange juice from Mexico would not have any adverse impact on the U.S. orange juice industry, given the fact that imports are needed in the U.S. market to fill a significant, and historic, shortfall in supply. Imports are, and will remain, an important source of supply to the U.S. market, which is unable to obtain adequate supply of fruit from sources in the United States.

In the State of Florida, the largest source of oranges in the United States and the world's second largest source after Brazil, freezes which have in the past only affected the groves located in the northern part of the State, have, during the 1980s, been moving south. During the most recent freezes, there were freezing temperatures registered as far south as Miami. There is no reason to believe that with such weather patterns, Florida orange production can continue to be a reliable source of supply for the future to satisfy that part of the demand for orange juice in the United States which it has in the past been able to supply. Any growth projection in the producton of oranges in Florida will always be conditioned to the uncontrollable weather factor.

In California and Arizona, the second largest producing regions in the United States, there is no projected growth in orange production, according to industry sources. The remaining, and least important, producing region in the United States -- Texas -- has been devastated by the 1983 and 1989 freezes.

U.S. orange juice processors, out of prudence (and good business sense), source their supply from different, geographically diverse, sources. This is a result of the vagaries of the weather and the numerous ways it adversely affects the supply of oranges for processing, as well as a reluctance to become too dependent on any source (or sources) of supply. Unconditional duty-free treatment for frozen

concentrated orange juice and single strength orange juice under a Free Trade Agreement would assist the U.S. industry in further diversifying its sourcing.

U.S. orange growers currently sell all the product they grow, but fail by a wide margin to meet demand for the product in the U.S. market. U.S. processed orange juice consumption is estimated to be approximately 1,338 million gallons single strength equivalent ("SSE") for 1991, according to the Florida Department of Citrus. U.S. orange producers will be able to supply this market with less than two-thirds of total demand. The shortfall in supply will be, as it has in the past, filled by imports, and historically almost all of these imports were from Brazil. See Attachment 1.

Imports serve the role of a residual supplier in the U.S. market, i.e., the size of their presence in the U.S. market in any given year depends largely on the shortfall of fruit supply in the U.S. market. Demand which cannot be filled by U.S. producers was, and is, filled by imports. See table attached as Attachment 2, which shows that between 1985 and 1989, as production of frozen concentrated orange juice of 65° Brix in Florida increased, imports of such frozen concentrated orange juice of 65° Brix decreased on almost a one-for-one basis. The designation of frozen concentrated orange juice and single strength orange juice as immediately unconditionally duty-free will not result in U.S. producers losing any share of the market to imports. U.S. producers will continue to sell all that they produce. The effect of such action will be seen in the import market. Imports from Mexico will become more competitive with the Brazilian product, and any increase in U.S. imports will come at the expense of the Brazilians.

Brazil has long been and remains the primary source of imported of frozen concentrated orange juice into the United States. Brazil is, in fact, the dominant force in the world market for frozen concentrated orange juice, and has the power to lead and dictate world market prices. Brazil accounts for almost two-thirds of the total world production, and over 90 percent of world exports, of frozen concentrated orange juice for manufacturing. In contrast, Mexico accounts for approximately two percent, while U.S. producers account for approximately one-third. Imports from Brazil today account for 83 percent of the U.S. import market in terms of quantity, and for 81 percent of the import market in terms of value. However, as recently as 1985, frozen concentrated orange juice from Brazil made up 97 percent of the import market. U.S. processors began, during the mid-1980s, to look for alternative sources for imported product, as they realized the inherent danger of being so totally dependent on a single source of supply. However, given the power and dominance of the Brazilian processors in the world market (three companies control 75 percent of Brazilian production), it has been very difficult for Mexican producers to compete against Brazilian imports. Immediate unconditional duty-free designation of frozen concentrated orange juice and single strength orange juice under a Free Trade Agreement would allow orange juice processors in Mexico to compete somewhat more effectively against Brazilian orange juice processors.

In the case of Mexico, a very distant second source of supply in the U.S. import market, unconditional duty-free treatment will only offset in part the competitive advantages enjoyed by Brazilian producers of frozen concentrated orange juice over Mexican producers. These competitive advantages have precluded, and will continue to preclude, Mexico from becoming a more important supplier to the U.S. market. Brazil will keep its role as the predominant source of supply to the U.S. market for the foreseeable future, and probably beyond.

Brazilian producers simply have tremendous competitive advantages over Mexican producers. Brazilian producers have a permanent presence in the U.S. market as they can ship product during all 12 months of the year, having the resources and capacity to store product year round after it has been processed. Mexican producers ship during only 4 or 5 months of the year, giving them only a marginal presence in the U.S. market, as they do not have the capability, or resources, to create a service structure tc store processed product and ship it throughout the year. Since the Brazilian processing industry is 20 times larger than the Mexican processing industry, it is able to take advantage of economies of scale which are unavailable to the smaller Mexican producers. Brazilian producers of frozen concentrated orange juice are also vertically integrated, being owners of very large orange groves. This provides the Brazilians with a competitive advantage at the grove level, enabling them to not only have a steady and available source of fresh oranges, but also to set the price of the frozen concentrated orange juice. Mexican processors, in contrast, must compete for supply of oranges in the spot market, in competition with the very strong market for fresh oranges in Mexico. Additionally, Brazilian frozen concentrated orange juice producers benefit from processing costs which are significantly lower than those of Mexican producers, in part a result of the fact that the Brazilian producers have a much higher rate of capacity utilization in their processing facilities, and much larger resources for research and development, than do producers in Mexico. Brazilian producers also have "tank farm operations" for frozen concentrated orange juice in the United States, in Europe, and recently in Japan, and also maintain permanent sales forces in these parts of the world. Further, Mexican orange juice producers face significantly higher freight transportation costs for frozen concentrated orange juice than do Braziliian producers. While Mexican producers ship their product in individual 54-gallon drums or in tank trucks, Brazilian firms own their own ships (tankers), which they use to ship frozen concentrated orange juice to the United States, more than offsetting any geographic advantage Mexican processors may have. The cost to Brazilian firms to ship from Santos Port to Florida (the location of most U.S. juice processors) is significantly less than the cost incurred by Mexican exporters

In part, Brazilian processors owe their dominance of the import market to government support of the industry. It is the Mexican industry's understanding that Brazilian frozen concentrated orange juice producers were able to take advantage of programs which provide interest-free credit, and are given exemptions from certain Brazilian taxes. The Brazilian citrus industry is highly capitalized and has an infrastructure to maintain aggressive growth, providing a significant competitive advantage to the Brazilian processors in the world market.

In 1960, Mexico produced more oranges than Brazil. Today, Brazil produces six times as many oranges as Mexico, with the production of 12 million metric tons predicted for 1990, as compared to less than 2 million metric tons for Mexico. Production of oranges has increased slowly in Mexico over the past 30 years. In the last 4 years, production of oranges in Mexico has been highly inconsistent and erratic. See Attachment 3. If orange juice exports from Mexico have been increasing over the past few years, it is because international prices have been at record highs, not because of any increase in fruit production. As prices decrease, this trend will reverse because of the relatively unsophisticated horticultural practices in Mexico, the very small size of individual growers, and their lack of financial resources. Orange producers in Mexico have

been very dependent on the domestic fresh fruit market. In 1987, about 35 percent of oranges grown in Mexico were processed -- today that percentage is down to just over 30 percent. The remainder is sold in the fresh fruit market. There is a strong market for fresh fruit in Mexico, and, as a result of the freezes of December 1983 and 1989 which damaged 20 percent of total Mexican orange production, this market has taken a larger share of the oranges grown in Mexico. Orange juice producers in Mexico bid in the open market on a spot basis for oranges against each other and against those purchasing fresh oranges for other uses in Mexico, and the latter group has historically purchased the bulk of the available crop. Mexican orange juice producers do not own their own orange groves (Mexican law does not permit companies to own land for growing oranges), nor do they have any exclusive arrangements, or even long-term contractual arrangements, with Mexican growers.

Given that the number of oranges available to processors in Mexico has, over the past few years, remained constant or has decreased, the designation of orange juice as unconditionally duty free at the time of implementation of a Free Trade Agreement may permit the Mexican producers to become more competitive in their bidding for fresh oranges in Mexico. However, the ability of Mexican producers to export will always be severly constrained by their limited ability to obtain an adequate supply of fresh oranges. The lack of economies of scale at the grove level (land is highly fragmented), the poor land productivity (Mexican orange growers produce 10 metric tons per hectare versus 40 metric tons per hectare produced by Florida growers, on average), the lack of tree care and grower sophistication, the lack of adequate financing, and high financial costs, impose severe growth constraints. Supplies of oranges are likely to increase, if at all, only over a very long period of time. Mexico is not, and cannot be compared to, Brazil when speaking of citrus. There simply are far to many differences between the industries in these two countries, and the Mexicans face significant competitive disadvantages in comparison to the Brazilians.

There are erroneous beliefs that because labor costs in Mexico are lower than in the U.S., and because there is land available for growing citrus, Mexico has virtually unlimited growth potential. There are many other factors as the ones here described which impose structural growth capabilities for the citrus industry in Mexico. Lower labor costs and available land do not, per se, guarantee competitiveness. Technology and technical abilities, grove management capabilities, favorable financing, economies of scale (large groves), and high productivity levels are by far more important than inexpensive labor. While Mexico has lower labor costs, it has none of these other advantages, which are available to the U.S. (and Brazilian) industry. It is important to remember that a Free Trade Agreement will increase labor costs in Mexico and will somewhat reduce the existing gap between the U.S. and Mexico. There will be no "surge" in imported orange juice from Mexico in response to duty-free designation; any increase in imports, which will come at the expense of other imports (predominantly from Brazil), would be moderate, reflecting the limitations imposed by the lack of adequate supply of fresh oranges to the processors in Mexico.

Unconditional duty-free treatment under a Free Trade Agreement for orange juice would allow the orange juice industry in Mexico, which does not enjoy the advantages of the Brazilian industry, to slightly narrow their competitive disadvantages vis-a-vis Brazil, and would enable it to compete more effectively in the U.S. market against Brazilian exporters.

We wish to again emphasize the fact that frozen concentrated orange juice from Mexico does not compete against U.S.-produced orange juice. It competes solely against imports from Brazil. Since 1985, Mexico has gained a modest share of the U.S. market, while Brazil has lost market share. Indeed, the recent increase in import market share enjoyed by the Mexican product closely parallels the decline in import market share of the Brazilian product. See table attached in Attachment 4. The increased share of the import market enjoyed by Mexican producers can be explained by the undervalued peso during 1986 and 1987, and by the unprecendented high international price for frozen concentrated orange juice in 1988, 1989, and 1990. Under "normal" conditions, Mexico has played a negligible role in U.S. imports.

High prices have resulted from scarce supply of oranges due to droughts in Brazil or freezes in Florida. U.S. consumption of orange juice has lost market share to other juices and has been stagnant or has decreased due to the concentration and volatility of supply. U.S. consumers, marketers, processors, and even growers, have had to suffer the consequences of drastic and unpredictable ups and downs in prices, supply and consumption. Unconditional duty-free treatment under a Free Trade Agreement for orange juice would open a window of opportunity for the U.S. industry to better source from Mexico, and to better react to the unpredictable but probable domestic or foreign supply shortfalls.

We would also observe that the U.S. orange juice industry's ability to participate and position itself in growing foreign markets is limited by its ability to develop other sources of supply. The U.S. citrus industry as well as the Brazilian citrus industry already have the capital resources, technology, existing economies of scale, and marketing expertise to strongly position themselves for entry in the large markets in Europe and Japan, which are growing rapidly. For example, Japan will liberalize its import quotas by April 1, 1992. Its current consumption is estimated to be 115 million gallons SSE. By the year 2000, its consumption is expected to be between 40 to 50 percent of U.S. orange juice consumption, which is 4 to 6 times more than its current consumption. Mexico may be the best source for a portion of the additional supply needed in the future to take advantage of the export market opportunities presented, especially should such supply become unconditionally duty free.

U.S. producers who purchase frozen concentrated orange juice from Mexican sources do so at the expense of Brazilian exporters. This reflects not only the desire of U.S. juice processors to reduce, to the extent possible, their reliance on Brazil as the single source of supply for imported frozen concentrated orange juice, but also the desirability of the Mexican product. Mexican orange juice is produced mainly from Valencia oranges, and, as a result, is of a superior quality to the Brazilian product. The Mexican product is ordinarily used by U.S. processors as a blend in combination with frozen concentrated orange juice from Florida and Brazil, or California and Brazil. However, Mexican frozen concentrated orange juice can only compete with the Brazilian product up to a point: significant limitations on the amount of orange juice which the Mexican industry can produce, combined with the numerous other competitive advantages enjoyed by the Brazilian producers, will keep the Mexican industry from ever becoming truly competitive with the Brazilians.

Even with unconditional duty-free treatment, there will exist severe restraints on the ability of Mexican processors to significantly increase their exports to the United States.

The only way in which the designation of orange juice as unconditionally duty-free at the time of implementation of the Free Trade Agreement will impact upon the U.S. market is in determining the share of imports sourced from Brazil. Should such treatment be granted to frozen concentrated orange juice, more of the imported product will be sourced from suppliers in Mexico. U.S. suppliers would still be able to sell all of the product which they produce.

IV. CONCLUSION

The immediate designation of frozen concentrated orange juice for manufacturing and single strength orange juice to unconditional duty-free status would benefit the U.S. orange juice industry. U.S. orange producers currently sell all the oranges they can produce, and are unable to fully meet the demand in the U.S. market. Imports of orange juice are a crucial source of supply in the U.S. market, as they make up the substantial shortfall in U.S. production. The past 10 years have shown that weather conditions in the largest producing State of Florida have worsened as freezes keep moving south of the State. Other citrus production States have little or no potential growth. On the other hand, there is a large foreign market under expansion, and the U.S. orange juice industry has good opportunities for exports if it can obtain sufficient supply of orange juice to meet its requirements in the U.S. market. It is expected, therefore, that the U.S. citrus industry will be a net importer of orange juice for the long term.

Imports allow the U.S. industry to source orange juice from geographically diverse areas, which proves critical in times when crops fail in certain areas, and at other times reduces their dependence on any one source of supply. High concentrations and volatility of supply can prove to be critical to the U.S. industry, since orange juice is a highly fungible product and the market has contracted. Consumers switch easily between juice products, and once market share has been lost, it is very difficult to regain. Diversifying sources of supply of orange juice can reduce risk to all participants in the U.S. orange juice industry, and will increase stability in the U.S. market, to the benefit of producers and consumers.

The U.S. orange juice industry has been, and is currently, highly dependent on imports from Brazil. Immediate designation of orange juice to unconditional duty-free status under a Free Trade Agreement will enable suppliers in Mexico to better compete in the U.S. import market, i.e., in their competition with the Brazilians. This will allow the U.S. orange juice industry to obtain a greater diversity in the sourcing of imports, and help them to reduce somewhat their reliance on Brazilian sources of frozen concentrated orange juice for manufacturing. This will ultimately provide the U.S. industry with somewhat more flexibility in dealing with the Brazilians.

For all the reasons discussed above, we respectfully urge that frozen concentrated orange juice, classified under HTS subheading 2009.11.00, and single strength orange juice, classified under HTS subheading 2009.19.20, be considered for immediate unconditional duty-free treatment under a negotiated Free Trade Agreement with Mexico. Such treatment would benefit the U.S. orange juice industry, as imports from Mexico, although subject to a number of constraints which will serve to limit growth, would reduce somewhat the U.S. industry's reliance on imports from Brazil, and create a more healthy and stable market situation in the United States.

ATTACHMENT 1

IMPORTS OF ORANGE JUICE CONCENTRATED, UNMIXED
Item 2009.11.0000, January-December 1989
(Quantity in Gallons; Value in Dollars; Percentages of Total Imports)

	January-December 1989	
	Quantity	Value
Canada	280,805	434,363
Mexico	35,575,651 (13.2%)	45,345,083 (15.1%)
Belize	5,781,150 (2.1%)	8,531,613 (2.8%)
Honduras	591,531	436,931
Costa Rica	851,959	688,104
Barbados	104,672	134,100
Netherlands Antilles	738	2,705
Venezuala	1,929,498	1,978,579
Brazil	224,286,786 (83.1%)	242,959,253 (80.7%)
Argentina	404,706	455,254
Morocco	0	0
Peru	31,580	29,553
Belgium	40,693	52,862
France	20,468	72,581
West Germany	234	1,701
South Korea	31	4,947
Australia	24,025	24,025
Total U.S. Imports	269,923,526	301,151,654

IMPORTS OF ORANGE JUICE CONCENTRATED, UNMIXED
TSUS Item 165.29, January-December 1985, 1986, 1987 and 1988
(Quantity in Gallons; Value in Dollars; Percentages of Total Imports)

	January-December 1985		January-December 1986		January-December 1987		January-December 1988	
	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value
Canada	2,881,759	4,886,876	3,567,612	4,974,960	1,206,232	1,647,396	326,317	534,463
Mexico	9,168,369 (1.6%)	10,551,882 (1.5%)	32,335,427 (5.9%)	18,258,848 (4.7%)	39,673,296 (7.6%)	34,268,654 (7.5%)	48,274,315 (11.8%)	62,421,316 (11.4%)
Guatemala	598,832	436,791	625,528	383,186	0	0	0	0
Belize	3,784,998 (0.7%)	6,138,533 (0.9%)	6,624,549 (1.2%)	6,371,488 (1.7%)	6,786,573 (1.3%)	7,980,957 (1.8%)	5,425,962 (1.3%)	8,268,670 (1.5%)
Honduras	1,518,920	1,672,577	456,862	484,146	1,296,836	1,866,854	0	0
Costa Rica	0	0	0	0	37,624	31,960	0	0
Jamaica	956,566	1,246,618	820,862	869,895	318,933	384,132	0	0
Panama	0	0	0	0	259,981	335,895	28,628	43,859
Dominican Republic	80,491	115,818	17,223	3,946	0	0	0	0
Montserrat	0	0	437	1,373	0	0	0	0
Colombia	28,849	25,851	0	0	0	0	0	0
Trinidad	0	0	0	0	2,625	7,788	0	0
Venezuela	87,468	59,386	24,603	16,778	23,774	21,680	0	0
Chile	0	0	0	0	0	0	100	2,588
Brazil	562,445,388 (96.7%)	669,863,389 (96.3%)	500,839,721 (91.6%)	352,316,736 (91.4%)	470,831,819 (90.3%)	407,864,225 (89.6%)	352,765,479 (86.2%)	472,715,745 (86.2%)
United Kingdom	26,825	38,956	0	0	16,892	34,814	27,887	28,860
Belgium	839	5,417	81,345	112,615	792	1,967	0	0
France	311,683	669,712	525,201	1,489,982	283,703	987,160	671,825	2,048,434
West Germany	1,657	4,683	7,765	2,896	898	3,771	880,716	1,382,543
Portugal	0	0	1,711	4,000	0	0	951	2,888
Spain	369,443	478,837	0	0	0	0	0	0
Switzerland	0	0	0	0	17,642	16,760	0	0
Italy	1,888	2,598	0	0	15	1,651	0	0
Cyprus	0	0	0	0	458	1,412	0	0
Yugoslavia	518	1,445	0	0	0	0	0	0
Israel	3,885	2,538	137,111	121,794	0	0	0	0
Bahrain	4,050	1,189	0	0	0	0	0	0
Singapore	0	0	8,200	16,872	0	0	0	0
Thailand	0	0	0	0	11,980	18,914	0	0
South Korea	16,648	61,767	13,949	52,217	36,712	64,675	160,191	383,889
Hong Kong	0	0	3,483	3,233	493	2,329	0	0
Taiwan	0	0	52	1,680	0	0	0	0
Japan	9,363	23,259	5,121	27,358	237	2,941	5,432	38,819
Australia	0	0	215,644	247,544	762,675	591,117	0	0
Nauru	0	0	0	0	0	0	491,582	588,867
South Africa	0	0	68,909	52,870	0	0	0	0
Total U.S. Imports	581,427,869	695,387,546	547,840,924	385,558,414	521,558,414	454,442,284	409,857,105	548,363,086

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ATTACHMENT 2

FROZEN CONCENTRATED ORANGE JUICE FOR MANUFACTURE

U.S. (Florida) Production; U.S. Imports
(in million gallons)

	1985	1986	1987	1988	1989	Difference 89 vs. 85
U.S. FCOJ 65° Brix Gallon Equivalent Imports*	83.1	78.2	74.5	58.4	38.5	-44.6
Florida Orange Production 65° Brix Gallon Equivalent**	83.3	95.7	105.1	124.8	128.0	+44.7

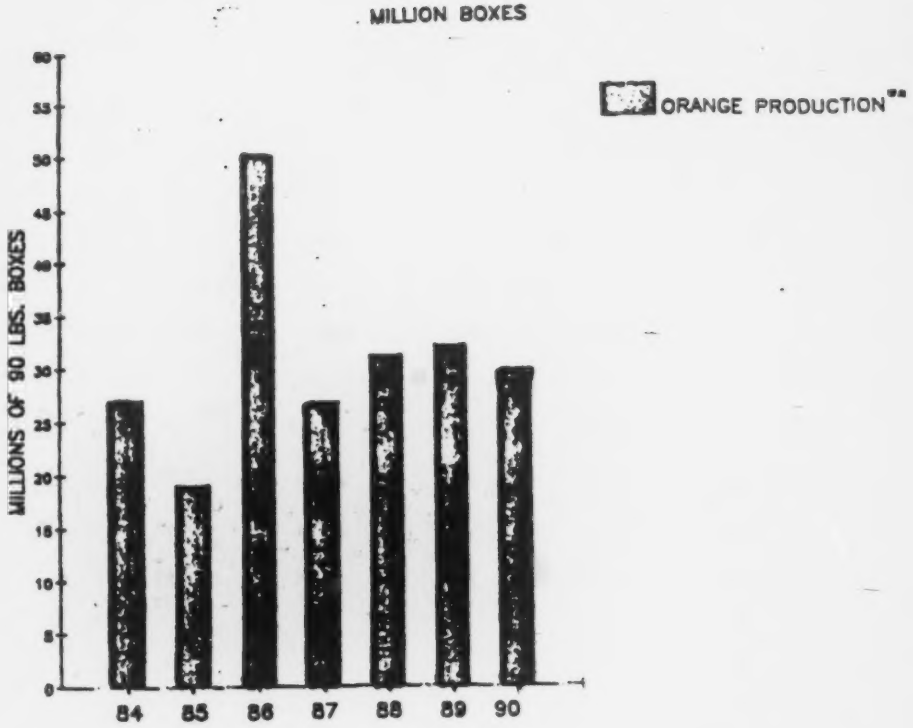
Source:

* Import statistics of orange juice concentrated 1985-1989.

** Florida Agriculture statistics (Citrus Summary 1988-1989).

ATTACHMENT 3

MEXICO



ATTACHMENT 4

FROZEN CONCENTRATED ORANGE JUICE
MEXICAN AND BRAZILIAN SHARES BY
VALUE OF U.S. IMPORT MARKETS
1985-1989

	MEXICO		BRAZIL	
	% of Imports	Change	% of Imports	Change
1985	1.5%	-	96.3%	-
1986	4.7%	+ 3.2%	91.4%	- 4.9%
1987	7.5%	+ 2.8%	89.6%	- 1.8%
1988	11.4%	+ 3.9%	86.2%	- 3.4%
1989	13.2%	+ 1.8% +11.7%	80.7%	- 5.5% -15.6%

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February 20, 1991

STATEMENT
TO THE
SUBCOMMITTEE ON TRADE,
HOUSE COMMITTEE ON WAYS AND MEANS,
ON THE PROPOSED NEGOTIATION OF A FREE TRADE AGREEMENT WITH MEXICO

The National Association of Growers and Processors for Fair Trade, representing tomato growers and processors in all producing states, points out that processed tomato products are highly import sensitive. The products of concern are:

HTS 0712.90.75	Dried tomatoes (tomato flakes)
HTS 2002.10.00	Canned tomatoes
HTS 2002.90.00	Tomato paste, tomato puree, and other tomato concentrates
HTS 2103.20.40	Tomato sauce

The import sensitivity of these processed tomato products is evidenced by U.S. tariff history: U.S. tariffs on tomato products were not reduced in the Tokyo Round. Tomato products are among only a handful of products from Israel on which U.S. tariffs are frozen at MFN rates until the last possible moment under the U.S.-Israel FTA. Tomato products are among the products on which GSP duty-free treatment has been considered and rejected--most recently in the GSP Andean Review. Mexico's petition for GSP treatment on tomato paste is among the petitions which were not accepted for review.

The NAGPFT urges the adoption in the U.S.-Mexico FTA agreement of phase-in provisions that will assure maximum and long-term protection to the U.S. tomato products industry.

The U.S. International Trade Commission should be asked to recommend extended phase-in or other adjustment provisions for incorporation in the U.S.-Mexico FTA agreement, and to identify the articles for which that special treatment should be provided.

Respectfully submitted,

David L. Zollinger, Chairman
National Association of Growers
and Processors for Fair Trade

BEFORE THE
SUBCOMMITTEE ON TRADE
COMMITTEE ON WAYS AND MEANS
UNITED STATES HOUSE OF REPRESENTATIVES

HEARINGS ON THE PROPOSED NEGOTIATION
OF A FREE-TRADE AGREEMENT WITH MEXICO
FEBRUARY 21, 1991

STATEMENT BY RANDOLPH NODLAND, DUNN CENTER, NORTH DAKOTA
PRESIDENT, NATIONAL FAMILY FARM COALITION

Mr. Chairman and Members of the Committee, I'm Randolph Nodland, a grain and livestock farmer in Dunn Center, North Dakota. I am President of the National Family Farm Coalition, made up of 40 farm and rural advocacy organizations in 30 states. I'm grateful to be able to share the concerns of the Family Carm Coalition today with you regarding a possible free-trade agreement with Mexico - concerns which the Coalition has expressed publicly before, in accord with organizations such as the American Agriculture Movement, the National Farmers Union, the Institute for Agriculture and Trade Policy, and the Association of Farmworker Opportunity Programs, as well as with a host of environmental, labor, consumer, human rights and public interest organizations.

Mr. Chairman, we are convinced that the Bush Administration's plan to deregulate trade between the US and Mexico will push agricultural production south of the border to take advantage of cheaper land, low-cost labor and lax environmental regulations. The result will be human and resource exploitation in Mexico, lower farm and farmworker income in the US, and heightened threats to food safety.

Agribusiness wants to escape regulations and programs that protect farmers, farmworkers and the environment in this country. They want to set up food-processing sweatshops and chemical-intensive factory farms in Mexico, then ship the products back into the US across an open border. Once U.S. farmers have to compete with this *agro-maquila* system, shippers and food-processors in this country will continue to try to drive our already-low prices still lower.

One of the first and most obvious threatened departures from our communities will be the meatpacking industry. Not only will jobs migrate South, but heightened competition from imported processed meat will put downward pressure on wages and working conditions in those plants which remain in the U.S. I fear that the raising of meat animals will follow the processing plants to Mexico in order to avoid costly transportation.

If the GATT negotiations are any indication, the Administration will also use these bilateral trade talks to attack domestic farm programs and to lower food-safety standards. The so-called

than are allowed here. It will be considered a "trade barrier" to try to prohibit food imports carrying DDT or other chemicals that are banned domestically, as long as those imports meet "international" standards. Totally opening our border means food-safety hazards and a loss of consumer confidence in our products. Farmers in this country shouldn't be put at a competitive disadvantage just for complying with environmental regulations.

Lower safety standards will also hurt farmworkers, who already suffer from chemical exposure at three times the rate of the rest of the population. And shifting production to Mexico will lower farmworker wages in the US, where they are already lower than for any other occupational group.

Finally, we know a Free Trade Agreement would shift more fruit and vegetable production to Mexico. But allowing unlimited imports of dairy products, rice, cotton, sugar, beef and peanuts into the US will move much of these industries out of this country, too. Although some people have told me that a free-trade agreement could boost our grain exports to Mexico, I doubt that we will see many such benefits. First, we don't face significant barriers to our grain exports to Mexico now. And the drive to export has already contributed to the pressure to push grain commodity prices lower and lower in this country. Hundreds of thousands of U.S. farmers have been driven from business by these low-price policies. Second, if this U.S.-Mexico agreement is indeed the first step toward a hemispheric free-trade agreement, as the Administration promises, then we also must look forward to an opening of our borders to unlimited grain imports from low-cost direct competitors such as Brazil and Argentina. In other words, the trade balance, even in grains, will worsen as a result of "free trade."

The complete deregulation of agricultural trade amounts to the intentional destruction of rural American communities. We're working with farmers in Mexico and Canada, and we've found that they're not asking for free trade, either. The ones who benefit most are the international agribusiness corporations. And it's farmers, farmworkers, consumers and the environment that lose. Therefore, Mr. Chairman, we call on Congress, and the Ways and Means COmmittee specifically, not to grant "fast-track" authority to the Administration for free trade negotiations between the US and Mexico. Congress must retain its ability to set domestic farm policy and food-safety standards, as well as its power to shape international agreements.

Thank you.

STATEMENT OF RICHARD PASCO, VICE PRESIDENT OF GOVERNMNENT AFFAIRS, NATIONAL PORK PRODUCERS COUNCIL

Mr. Chairman and Members of the Committee:

The National Pork Producers Council (NPPC) represents more than 100,000 producers through its 45 state affiliates across the United States. As an industry that receives no direct government subsidies for pork production, we have consistently supported multilateral and bilateral trade negotiations aimed at reducing subsidies, tariffs, and other barriers to free trade. Thus, the NPPC firmly supports the concept of free trade between Mexico and the United States.

In addition, it is certainly worth consideration to include Canada as part of an integrated "North American Agreement." Our nations can all benefit from a fully implemented agreement that provides new opportunities for trade. The challenge we now face is how to achieve trade that is both free and fair with a minimum of conflicts.

The National Pork Producers Council has been working with the Mexican Pork Producers Council (the Confederacion Nacional Ganadera) and the Mexican government in recent years to eliminate mutual concerns about animal disease control and inspection standards. We would like to use this opportunity to elaborate on these concerns. As our producers have a greater opportunity to examine exactly what a U.S.-Mexican Free Trade Agreement could mean to them, we would like to continue our dialogue with the Committee regarding the economic and structural changes the pork industry expects as a result of such an agreement.

Animal Health Programs

As with any bilateral or multilateral trade negotiations, negotiations with Mexico must focus on the status and quality of their animal health programs. For example, the United States spent $130 million in 1970 to eradicate hog cholera, one of the most deadly swine diseases in the world. The disease was eradicated in the United States in 1978. When the disease was present in this country, the sale of vaccine to our producers cost about $25 million annually. That figure does not include expenses related to the application of the vaccine, the cost of annual losses caused by the disease, or the losses associated with the restrictions on the movement of swine suspected of having the disease. There is no way to calculate the additional losses suffered by producers because blood lines developed over decades had to be eliminated as part of the program, and because of the downtime between when a producer depopulated his herd and reestablished a new herd.

Hog cholera is highly contagious and, prior to the U.S. eradication program, caused substantial losses as the result of periodic epidemics. It can spread through direct contacts, vehicles, or people who have been exposed to infected hogs. It can also be spread by fresh meat and by-products from infected swine.

The United States halted vaccination of U.S. swine for hog cholera once the eradication of the disease was complete because of the possibility that animals could become reinfected with the disease through use of the vaccine. Since we have not vaccinated our swine during the past thirteen years, our entire swine population is highly susceptible to the disease. Thus, any introduction of the disease could spread like wildfire through the U.S. swine population.

The U.S. pork industry has found that the vaccines can prevent the disease, but can also mask the symptoms--making the disease difficult to detect in a vaccinated animal. Vaccinated animals can thus be responsible for outbreaks in areas where the disease was thought to have been eliminated.

Vaccines are most effective when the majority of the population within a county, state or region has been vaccinated. Unfortunately, this is seldom accomplished voluntarily, even in the United States.

Hog cholera exists throughout Mexico. In some areas, it is controlled with the use of vaccine. We have been informed that the disease does not exist in the Mexican state of Sonora and that no vaccine is permitted to be used there at this time. We understand the swine in Sonora are under surveillance, so if an outbreak does occur, it is to be reported and eliminated. Naturally, our industry would urge that a similar type of program be carried out in all of the Mexican states that border the United States and eventually, in all of Mexico.

The U.S. pork industry also requests that we proceed with care in preventing the spread of two other serious diseases -- pseudorabies and swine brucellosis. We are in the third year of a national program to eradicate pseudorabies in this country. The U.S. federal government, the states, and U.S. pork producers, are all playing a role in the control and eradication of this disease. The United States is also getting closer to eradicating swine brucellosis, a costly disease which causes sows to abort or have stillborn pigs. Brucellosis in swine and other livestock is significant because it is also transmissible to humans. The control and eradication of these two diseases must also be considered as we negotiate a free trade agreement with Mexico.

Fortunately at this time, movement of live hogs and pork in Mexico is predominately limited to the area where the product is produced. Product also moves southward in Mexico because of government marketing requirements. However, with increased production, such as that demonstrated in Sonora, we can expect changes in marketing patterns. In fact, it is our understanding that other areas in Mexico have already substantially increased their pork production and could look to expand their market outlets in the future.

Livestock Inspection and the Veterinary Infrastructure

In discussing a free trade agreement pertaining to livestock, one of the major differences that exists between Mexico and both the United States and Canada is its state and national veterinary service infrastructure. Historically, Canada and the U.S. have well-established veterinary organizations and policies. Mexico, often due to lack of funding, has been in almost a constant state of change. Animal health campaigns conducted by the Mexican government, such as its program for tick eradication, relied on a structure that virtually disappeared when funds were exhausted. Therefore, the quality, the consistency, and the government commitment to these programs must be discussed within the framework of any trade negotiations.

Historically, the inconsistency of livestock inspection and facility requirements at the U.S./Mexican border stations has been a very sensitive area. Only five facilities in Texas, all state-owned, are now approved for border inspection by the Mexican government. Private facilities, once used for export inspection, must now undergo expensive modifications to meet new health criteria imposed by Mexico. We understand the owners of these private facilities are reluctant to make this investment for fear that new requirements may be imposed in the future. Further, these owners are concerned that even if they do comply with these standards, the Mexican government may not be able or willing to provide the inspectors necessary for export approval.

This situation creates a bottleneck for U.S. producers and dealers who wish to ship livestock into Mexico. Uniform standards for inspections stations and uniform enforcement of regulations on the movement of livestock will have to be negotiated under any free trade agreement. Differences can now be found between each country's interpretation and enforcement of animal health provisions related to trade. Lax inspection in the future, on the part of either the U.S. or Mexico could endanger gains made in the area of disease control and eradication.

U.S., Mexican and Canadian Trading Opportunities

The Foreign Agricultural Service within the U.S. Department of Agriculture estimates that Mexican imports of U.S. live hogs, pork, and processed products totalled $56 million in 1989. Live hogs accounted for $7.9 million of that total. Mexico is a good market for our seedstock and for agribusiness associated with the production and marketing of swine.

Mexico currently imposes a 20% tariff on pork, pork products and slaughter hogs. It can be expected that the reduction or elimination of this tariff would benefit U.S. producers. There is evidence to support this conclusion. When Mexico reduced its tariff in June of 1988, Mexican imports of U.S. hogs increased dramatically. Any agreement on tariffs could yield similar marketing opportunities for U.S. producers.

Under any future multilateral trade agreement, we can surmise that Canada will wish to expand their competition with us in the Mexican market. Because of geographic location, Canada will be more insulated from Mexican disease problems. The Canadian domestic pork subsidy programs already provide Canadian producers with an advantage over U.S. producers. A free trade agreement between the U.S., Mexico, and Canada could institutionalize these advantages for Canadian producers.

Trade Dispute Settlement

There is one additional concern we would like to mention. Under the U.S.-Canadian Free Trade Agreement, a dispute mechanism was created that relies on binational panels to review the decisions of U.S. and Canadian agencies. One of these panels recently forced the U.S. International Trade Commission (ITC) to overturn two previous decisions which supported NPPC's claims that subsidized Canadian pork imports threatened material injury to U.S. industry. Although we recognize this hearing may not be the most appropriate forum in which to voice our complaints about the fairness of these panels in resolving disputes between industries within countries, we believe dispute settlement procedures should be carefully scrutinized for adequacy and fairness. The Committee and the U.S. Trade Representative should review the decisions being rendered by these panels and take steps to ensure that any enacting legislation, relevant to a U.S.-Mexican Free Trade Agreement, or a North American Agreement, corrects the problem of excessive liberties which can be taken by review panels, as evidenced in our current case with Canada on pork products.

Conclusion

U.S., Mexican and Canadian pork producers have begun to solidify their relationships through annual conventions and periodic business contacts. We expect these improving relationships will provide for increased communications between our groups.

The National Pork Producers Council wishes to cooperate in the negotiations to establish a free trade agreement between the U.S., Mexico and Canada. We would like to see current Mexican tariffs on pork imports reduced or eliminated. We also have serious concerns that any agreement not expose our swine population to any unnecessary health risks, nor adversely affect our trade opportunities. Therefore, we are requesting that as the negotiation proceeds and as it is appropriate, that our representatives will have an opportunity to actively participate in the problem solving and decision-making concerning the importation and exportation of live hogs, pork and other by-products.

We thank the Committee for their consideration of our concerns.

BEFORE THE
SUBCOMMITTEE ON TRADE
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

THE PROPOSED NEGOTIATION OF A
FREE TRADE AGREEMENT WITH MEXICO

STATEMENT OF THE NATIONAL POTATO COUNCIL

The following statement is submitted on behalf of the National Potato Council (the "Council") pursuant to the Subcommittee on Trade's ("Subcommittee's") press release of January 30, 1991, announcing a hearing on the proposed negotiation of a free trade agreement with Mexico. The Council requests that these comments be included as part of the formal written record of the hearing.

The Council is a trade association representing approximately 13,000 potato growers from across the United States. These potato growers are involved in marketing both fresh and processed potatoes in the United States and abroad. The Council is responsible for representing the industry in trade policy issues. In that capacity, the Council directly works with Congressional Members and officials at the U.S. Department of Agriculture and the Office of the U.S. Trade Representative on the industry's behalf.

The U.S. potato industry relies on the U.S. domestic market for roughly 87% of its total fresh potato trade and 80% of its total processed potato sales. For this reason, the Council is extremely concerned with the potential for increased imports of Mexican fresh and processed potato items as a result of a free trade agreement. The Council is also concerned that a free trade agreement will entice U.S. potato processors to move their operations to Mexico to take advantage of low labor and other low overhead costs. In turn, these plants would likely look to source their fresh supply from Mexican produced potatoes, rather than from current U.S. sources.

I. The United States Should Conclude All Efforts In The Uruguay Round Before Formal Negotiations Begin On A Free Trade Agreement With Mexico.

The Council strongly supports an Uruguay Round agreement in agriculture that calls for substantial reductions in all three negotiating areas -- external subsidies, internal subsidies and market access. With the GATT negotiations now formally restarted, the Council is hopeful that an Uruguay Round agreement can be reached, which is fully in line with the U.S. proposal. Because the Council believes such an agreement is the only way to achieve real export gains and a level playing field among trading nations, the Council believes negotiations on a free trade agreement with Mexico should not formally begin until the Uruguay Round negotiations are concluded. If agricultural countries, including Mexico, were required to compete with no unfair or artificial assistance and no import barriers, U.S. agriculture would be able to recapture much of the global market share lost to low-priced subsidized exports of other producing nations.

II. All Tariff And Non-Tariff Barriers Must Be Addressed In The Free Trade Negotiations.

Agriculture has consistently been touted as one of the more controversial issues that will be addressed in a free trade agreement with Mexico. Mexican farmers, which have the advantage of low labor and production costs, under a free trade agreement, will have access to 240 million U.S. consumers. The facts overwhelmingly suggest that Mexican farmers and agricultural exporters will gain substantially more from a free trade agreement than their U.S. counterparts. This is particularly true in the horticultural area where Mexico is considered directly competitive with U.S. production. For this reason, it is particularly important that a free trade agreement cover tariffs, non-tariff barriers, subsidies, phytosanitary requirements and the harmonization of testing, certification and inspection standards of the two countries.

The U.S.-Canada FTA is a good example of how U.S. potato growers will be injured if non-tariff barriers, subsidies, phytosanitary issues and certification procedures are not covered. Under the Canadian agreement, most issues, other than tariffs, were left to be resolved multilaterally in the Uruguay Round negotiations. Because an Uruguay Round agreement has yet to be reached, these issues remain unresolved and have resulted in unfair advantages in favor of Canadian growers and exporters.

In the event the Uruguay Round negotiations are concluded with no agreement reached, it is critical that a U.S.-Mexico agreement address all areas that restrict trade in agriculture. With Canada a full participant in the U.S.-Mexico negotiations, it is also hoped that the U.S.-Canada agreement can be supplemented to address subsidy and other issues if not resolved by the Uruguay Round.

A. Mexico's Restrictive Licensing Practices Must Be Eliminated.

Despite liberalization in other areas, Mexico continues to restrict agricultural imports through a system of licensing requirements. The use of import licenses enables the Mexican government to maintain discretionary control over individual shipments into Mexico and, in effect, acts as a quota. (ITC report on "The Likely Impact on the United States of a Free Trade Agreement With Mexico, February 1991, pg. 4-7).

Technically, Mexico requires import licenses for fresh potato imports. Although U.S. export statistics show that there is some trade with Mexico in fresh potatoes, the Mexican government has told U.S. officials that import licenses for fresh potatoes are not granted since domestic demand can be fully met by domestic production. Any question of access, and licensing requirements in particular, must be clearly negotiated as part of a free trade agreement.

B. Tariff Elimination Should Occur Over The Longest Possible Time Frame FOr Sensitive Items Like Potatoes.

The Council supports the staged elimination of tariffs under a U.S.-Mexico FTA, similar to the process followed under the U.S.-Canada FTA. Tariffs on the most import-sensitive items should be reduced over the longest feasible time-frame to give domestic producers adequate time to adjust to influxes of imported product. Fresh and processed potato items should be considered import-sensitive and subject to tariff elimination over a ten-year or longer period.

Current U.S. and Mexican tariffs on potato items of interest are listed below:

Item	U.S.-Tariff	Mexican Tariff*
Fresh		
Table (H.S. 0701.90.00)	0.77¢/kg.	10%
Seed (H.S. 0701.10.00)	0.77¢/kg.	10%
Frozen Fries (H.S. 2004.10.00)	10%	20%
Potato Chips (H.S. 2005.20.00)	10%	20%

*In addition, Mexico assesses an 8% customs handling charge and a 15% VAT.

III. Free Access On Both Sides Of The Border Will Mean Increased U.S. Imports Of Both Fresh And Processed Potatoes From Mexico.

It is expected that an elimination of the U.S. and Mexican tariffs on fresh and processed potatoes would result in increased trade across the borders, primarily in favor of Mexican-based growers, processors and exporters. While current trade in potatoes between the two countries is minimal, there has already been interest by U.S. companies to establish processing plants in Mexico where substantial savings can be gained on labor and other input costs.

Earlier this year, the Council opposed the request of the U.S. potato chip manufacturer PepsiCo, Inc. (i.e., Frito Lay) for duty-free treatment for U.S. imports of potato chips from Mexico under the U.S. Generalized System of Preferences ("GSP"). Frito Lay's main purpose in requesting GSP treatment (de minimus waiver) was to gain free access to the U.S. market for chips produced under low-cost conditions in Mexico. The general U.S. rate of duty for potato chip imports is 10%.

The elimination of U.S. tariffs will encourage other U.S. companies to take their production south of the border where they can benefit from cheaper overhead costs. This will be especially true if the free trade agreement does not require harmonization of non-tariff trade barriers, subsidies, phytosanitary, inspection and certification standards. It is believed that several U.S. frozen fry processors are actively looking for processing opportunities in Mexico.

The U.S. industry is concerned about displacement in the fresh potato market as well. The fear is that as U.S. processing plants move their operations to Mexico, they will begin to source their fresh potatoes from Mexico, rather than from U.S. sources. Mexico has the ability to increase its potato production as domestic demand increases.

In 1990, Mexico planted approximately 85,000 hectares (215,000 acres) of potatoes, which yielded approximately 1.2 million tons of potatoes. Nearly 85% of this production was of the Alpha variety, used for processing. In addition to table potatoes, Mexico also produces over 200,000 tons of seed potatoes annually. Mexican growers have purchased seed potatoes from the United States and Canada in recent years to improve and expand their potato farms. Industry sources estimate that Mexico has the potential to plant an additional 400,000 acres of potatoes in the short term in the Mazatlan area.

As increased plantings and better technology yield increased production, Mexican farmers may be forced to look to export markets for their additional production. With the close geographic proximity to the United States, free access, and an existing consumer market, the United States offers the best outlet for Mexican exports.

IV. Conclusion

The Council strongly believes that the United States should conclude all efforts to negotiate an Uruguay Round agreement before actively negotiating a free trade agreement with Mexico. If the Uruguay Round negotiations fail, all areas of concern -- tariffs, non-tariff barriers, phytosanitary issues, subsidies and certification and inspection requirements -- should be addressed in the free trade negotiations with Mexico. In the area of fresh and processed potatoes, unrestricted access and harmonization of standards should be sought before tariff elimination is negotiated. Moreover, for import-sensitive items like potatoes, tariffs should be eliminated in stages over a ten-year or longer period.

Respectfully submitted,

Ronald E. Walker

Ronald E. Walker
Executive Director
National Potato Council

February 25, 1991

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Statement of
Dale L. Matschullat, Vice President and General Counsel, The Newell Company
and F. L. (Rick) Contino, Vice President, Merchandising, Anchor Hocking
on the U.S.-Mexico Free Trade Agreement
before the Committee on Ways and Means, U.S. House of Representatives
February 21, 1991

Introduction

This statement is presented on behalf of the Newell Company ("Newell"), based in Freeport, Illinois, and its Anchor Hocking Glass division ("Anchor Hocking"). Anchor Hocking manufactures and sells diversified product lines of glass beverageware, dinnerware, kitchen housewares, and other glass products through retail stores and wholesalers located in all 50 states. It has glass production plants located in Lancaster, Ohio and Monaca, Pennsylvania.

Of particular interest to Anchor Hocking are tariff measures on glass products that are used for home, kitchen, and table use, including ovenware, beverageware, servingware, storage containers, globes and shades, vases, and household glassware such as fish bowls, chimneys and banks.

Anchor Hocking assumes that the goal of the proposed Free Trade Agreement ("FTA") negotiations with Mexico and Canada is to achieve an agreement that is in the economic interest of the United States. While other industries may benefit from a U.S.-Mexico FTA, such an FTA would clearly be harmful to the U.S. glass industry, for the reasons described below. We appreciate the concern expressed by Ambassador Hills regarding the glass industry; when testifying before the Senate Finance Committee on February 6, 1991, in response to a question regarding which industries will be adversely and disproportionately affected, she said that ". . . fruits and vegetables and glass deserve a special look." Because of the certain adverse impact on our industry, we strongly support the exclusion of glassware in an FTA with Mexico. We also propose in this statement various mechanisms for addressing the differences between the United States and Mexico with respect to protection of the environment and internationally recognized worker rights.

1. The U.S. glass industry has suffered steady, severe declines over the past two decades.

Since 1978, more than half of the glass manufacturing plants in the United States have closed. More than 21,000 workers have lost their jobs, including over 5,000 who have received trade adjustment assistance as compensation for jobs lost due to imports. As a result of these downward trends, the domestic glass industry has undergone severe consolidation.

Excess capacity, declining production and operating losses have forced many plants to close over the past decade, including:

- Federal Glass, Columbus, Ohio, 1979;
- Corning Incorporated, Corning, New York, 1980;
- Jeanette Glass, Jeanette, Pennsylvania, 1982;
- Wheaton Glass, Milville, New Jersey, 1985;
- Anchor Hocking, Factory #2, Lancaster, Ohio, 1986;
- Anchor Hocking, Clarksburg, West Virginia, 1987;
- Corning Incorporated, Muskogee, Oklahoma, 1988;
- Owen-Illinois, Vienna, West Virginia, 1988;
- Corning Incorporated, Paden City, West Virginia, 1989.

As the International Trade Commission said in its February 1991 report to the House Ways and Means Committee on the impact of a U.S.-Mexico FTA, "The U.S. industry producing household glassware, including tumblers, stemware, ovenware, and ornamental products, experienced considerable restructuring during the 1980s. Overcapacity and stiff price and import competition forced the industry to reduce employment and close inefficient facilities."[1]

[1] The Likely Impact on the United States of a Free Trade Agreement with Mexico, USITC Pub. 2353, Inv. No. 332-297 at 4-31 (Feb. 1991) (hereinafter "ITC Report").

2. ***The injury to the U.S. industry has been caused largely by imports.***

a. Imports have steadily increased.

Exhibit 1 shows a marked increase in imports of glass products. In 1971 the import penetration ratio by value was between 10.1 percent and 11.2 percent. By 1987, the ratio had increased to 42.3 percent. In 1989, the most recent year for which complete statistics are available, import penetration had reached 45.5 percent.

The import penetration level for glassware is even higher than that of textiles and apparel (21.2 percent import penetration in 1989) or steel (17.9 percent import penetration in 1989), which are clearly import-sensitive and have received massive import protection from the U.S. government. See Exhibit 2.

The existing tariffs on glass products have eased the decline of the U.S. glassware industry, not prevented it. Even at duty rates as high as 38 percent on some products, imports into the United States continue to grow unabated, while U.S. consumption remains relatively stagnant. As shown in Exhibit 1, the value of imports increased over 13 percent between 1987 and 1989 while U.S. apparent consumption increased only 5 percent.

b. Congress has recognized the import-sensitivity of the glass industry.

Import-sensitive glass products are not eligible for the U.S. Generalized System of Preferences. The Trade Act has exempted all import-sensitive semi-manufactured and manufactured glass products from GSP eligibility since the GSP program was established in 1974, because of their exceptional sensitivity to import competition.

c. The President has recognized the import-sensitivity of the glass industry.

The impact of imports has been recognized time and time again by the interagency Generalized System of Preferences ("GSP") Subcommittee, which over the past 15 years has granted duty-free treatment to only one product request out of 158 filed by developing country producers of glassware.[2] In the past year alone, the GSP Subcommittee has denied GSP eligibility for: glass bubble bowls and glass globes and shades from Mexico requested by Vitrocrisa in the 1989 GSP Annual Review; 17 tariff categories on glassware requested by Colombian producers as part of the Special Andean GSP Review; and 104 petitions on glass products filed in the 1990 GSP Annual Review, including 18 filed by Vitrocrisa.[3]

3. ***Mexico is uniquely positioned to benefit from the vulnerability of the U.S. industry -- particularly if tariffs are eliminated on exports to the U.S.***

a. Mexican exports of glass to the United States are high despite current tariffs of as high as 38 percent.

As shown in Exhibit 3, Mexican exports of glass to the United States have increased substantially both in absolute and relative terms. Between 1984 and 1990, Mexican exports to the United States of consumer glass products increased 67 percent. Mexico's share of total U.S. imports of glass products under HTS category 7013 increased from 9 percent in 1984 to over 15 percent in 1990. If Mexico can increase its glass exports so substantially when the average tariffs are high (averaging approximately 22 percent for all consumer glass products),[4] a tariff elimination would undoubtedly result in a flood of Mexican exports to the United States.

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[2] The only product to receive GSP treatment pursuant to a petition request was 7013.10.10, glassware of glass ceramic. Two other tariff categories were designated by the President as GSP eligible at the outset of the GSP program: 7013.99.30, smokers' articles and perfume bottles fitted with ground glass stoppers; and 7013.99.35, votive candle holders. Executive Order 11,888, Nov. 26, 1975. U.S. producers did not oppose GSP eligibility for either of these tariff subheadings at the time of review.

[3] The GSP Subcommittee is currently reviewing, as part of the 1990 GSP Annual Review, 16 petitions requesting GSP treatment for certain lead crystal products of HTS subheadings 7013.21.50, 7013.31.50 and 7013.91.50.

[4] ITC Report, supra note 1, at 4-31.

b. Mexican producers have numerous advantages.

(1) Wage rates

Manufacturing glassware requires relatively unsophisticated technology. Labor content is high, conferring a comparative advantage on countries with low wage rates.

Non-published data maintained by the Bureau of Labor Statistics show that Mexican wage rates in the glass and glassware industry were less than one-tenth of U.S. wage rates in 1987, the most recent year for which glass industry wage rates are available for Mexico. Even comparing average 1989 hourly wage rates for all manufacturing industries, compensation in Mexico is only 16 percent of compensation in the United States (see Exhibit 4).

(2) Energy costs

After labor, energy is the most significant cost component in the production of glass. Given that Mexico maintains a two-tiered industrial pricing policy for petroleum products under which domestic industries are charged lower prices than prevailing world market prices,[8] the Mexican glass industry enjoys an unfair competitive advantage over the U.S. glass industry. No matter how efficient the U.S. industry is, the Mexican industry will continue to have an unfair advantage so long as its energy costs are less than prevailing world market prices.

(3) Environmental and worker safety rules

In the United States, environmental and worker safety standards are high and their compliance is strictly enforced. In Mexico, such standards are weaker and their enforcement is lax. As a result, Mexican-based manufacturing operations have a distinct cost advantage over their U.S. counterparts because they do not have to provide as safe a workplace or make the extensive capital investments necessary to comply with stringent environmental standards. Absent tariffs to offset this advantage, imports into the U.S. of goods manufactured in Mexico would have a devastating effect on sales of U.S. goods, particularly on those products whose price must include substantial costs of compliance with stricter U.S. environmental and worker safety laws.

The United States glass industry is clearly a case in point. It has spent millions of dollars to comply with U.S. environmental and worker safety requirements. The effect of a United States-Mexican-Canadian FTA -- assuming weak Mexican environmental and worker safety rules continue -- would be to force the closure of U.S. plants meeting higher standards, only to be replaced by Mexican plants meeting far lower standards. Such a result is not in U.S. interests and should be avoided in the context of these negotiations.

Given the direct impact of environmental and worker safety regulations on the cost of U.S. goods and thus on their competitiveness, Mexico's lower environmental and worker safety standards clearly belong on the U.S.-Mexico-Canada negotiating table. Such costs are as much of a "trade issue" as tariffs, subsidies, and other matters that distort trade flows. The idea that Mexico's, or any country's, environmental problems are exclusively their concern and not the subject for trade negotiations is not only outdated, but in this case, dangerous given Mexico's proximity to the United States. The costs of maintaining the environment and providing a safe workplace must be tied to the price of the products whose production generates such costs. In Mexico, at present, they are not. This trade distortion must be remedied before freer trade with the United States is permitted in the products most affected by such distortions.

The effects of failing to link trade and environmental and worker safety concerns is illustrated by the maquiladora program. This program has indisputably provided thousands of jobs and millions of dollars in capital investment in Mexico.[9] It has also provided access to an abundant and cheap labor force for countless U.S. industries

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[8] ITC Report, supra note 1, at 4-29; State of New Mexico Department of Energy, Minerals and Natural Resources, Comments on The Likely Impact of a Free Trade Agreement with Mexico on the United States (Nov. 26, 1990) (available in public inspection files at ITC).

[9] Baker, "Along the Border, Free Trade is Becoming a Fact of Life," Bus. Week, June 18, 1990, at 41.

who have established manufacturing operations there.[7] However, the rapid growth of the maquiladora program appears to have not only overwhelmed Mexico's limited resources allocated to enforce its environmental and worker safety laws, but also its capacity to deal with the problems associated with such industrial and population growth, e.g., proper waste (including toxic waste) disposal, provision of an adequate and safe water supply, sufficient roads, and housing, etc.[8]

Such problems are further exacerbated by the widespread failure of the maquiladoras to comply with existing Mexican environmental and labor laws.[9] Many of these industries have apparently relocated their environmentally sensitive and labor intensive operations to Mexico where the costs of compliance with environmental and worker safety laws is significantly less than in their own countries due to a combination of lower standards and less enforcement.

As a result, the maquiladora program has created serious environmental problems for both Mexico and the U.S. states which share borders with Mexico.[10] In addition, working conditions in the maquiladoras are substandard and pose serious health hazards for Mexican workers.[11]

4. *Vitrocrisa is a large, sophisticated, technologically advanced manufacturer of glass products.*

Vitrocrisa, a subsidiary of Vitro Sociedad Anonima, is Mexico's largest glass producer and one of the foremost manufacturers of glassware products in the world. Vitrocrisa manufactures diversified glass products ranging from relatively inexpensive beverageware to upscale full lead crystal giftware and barware. The existence of the cost and other advantages of Mexican producers has enabled Vitrocrisa to sell its products to customers in the United States at prices as much as 50 to 60 percent below Anchor Hocking's prices for comparable items, according to reports regularly received by Anchor Hocking from customers. Vitrocrisa recently augmented its U.S. presence by acquiring Anchor Container Corporation (no relation to Anchor Hocking).[12]

5. *As U.S. glass tariffs go down, U.S. glass imports go up; this will be particularly true for imports from Mexico.*

a. *Prior experience: Israel and the CBI.*

Two examples vividly illustrate the result of tariff reductions on glass products. The volume of imports of glassware from Trinidad and Tobago, one of the Caribbean Basin Initiative (CBI) countries, increased from nothing in 1984 when the CBI took effect to almost half a million in 1990. (See Exhibit 3.) Since the entry into force of the U.S.-Israel Free Trade Agreement, imports of glassware products from Israel have surged more than 240 percent. (See Exhibit 3.) The U.S. glassware industry could not withstand the similar flood of imports that would certainly result from reductions in tariffs on glass products from Mexico.

b. *The ITC view: significant increase in U.S. household glassware imports.*

In its February 1991 report, the ITC stated:

> The elimination of the duties on household glassware under an FTA would most likely lead to a significant increase in U.S. imports from Mexico. Although moderate demand and high supply elasticities characterize the household glassware market, duty elimination would likely have a much greater

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[7] Id.

[8] See, Kochan, "Maquiladoras: The Hidden Cost of Production South of the Border," reprinted in United States-Mexico Economic Relations: Hearings before the Subcomm. on Trade of the House Rep. Comm. on Ways and Means, 101st Cong., 2nd Sess. 232 (1990)

[9] Id.

[10] Id.

[11] Id.

[12] "Raid Across the Mexican Border," The New York Times, October 30, 1989.

> impact on U.S. import levels because of the lower cost of Mexican glassware and the already developed channels of distribution for the product in the U.S. market. The expected growth in U.S. exports to Mexico would be more limited because of the dominance in the Mexican market of Vitro Crisa [sic] with its extensive distribution network, and the smaller size and purchasing power of the Mexican glassware market. In addition, Mexico's less developed infrastructure and marketing channels hinder development of an effective distribution system.[13]

Yet, even though the ITC acknowledges that an FTA would likely result in a substantial increase in Mexican imports of household glassware and only a limited increase in U.S. exports, it then concludes:

> The expected increase in U.S. trade with Mexico in household glassware would have a negligible effect on the U.S. industry overall, because it represents a negligible portion of U.S. production. However, an increase in imports from Mexico could result in an adverse impact on U.S. producers of lower priced household glassware in which Mexican shipments are concentrated and U.S. producers' margins are low.[14]

Anchor Hocking certainly concurs with the last sentence of the ITC's conclusion. Because Anchor Hocking's production is concentrated in lower priced glassware products and because, even at the current duty rates, we are being undersold by Mexican imports, we know how devastating the impact will be on the U.S. producers of lower priced glassware if tariffs on imports from Mexico were to be reduced or eliminated.

However, Anchor Hocking does not believe that an across the board tariff reduction on household glassware would have a negligible impact on the household glassware industry overall. While Anchor Hocking's production is concentrated in lower priced merchandise, its production of moderate to higher priced merchandise is not insubstantial. Moreover, there are numerous producers in the U.S. glass industry, including the producers of hand-made glass, which manufacture moderate to higher priced products. These producers are also vulnerable to across the board tariff reductions because the glass industry in Mexico manufactures and exports glassware at all value ranges. In 1989, Vitrocrisa, which dominates the industry in Mexico,[15] increased its exports by six percent, opened a factory outlet in California, and " . . . launched a new line of lead crystal products . . . aimed at the top layer of the export market." (See excerpts from Vitrocrisa's 1989 Annual Report provided in Exhibit 5.) Vitrocrisa has targeted the U.S. market specifically, and not just in lower priced glassware products. Vitrocrisa's new line of lead crystal was ". . . designed specifically for the U.S. market."[16] Its market penetration strategy reflects ". . . product line breadth and marketing backbone."[17] "Simply put, Crisa wants to be U.S. retailers' total glassware resource."[18]

If Vitrocrisa has been able, under the existing tariff structure, to make inroads into the U.S. market in not only the lower priced products, but also the higher priced products, then there is every reason to expect that an across the board reduction in tariffs would result in substantial increases of imports across all value ranges. Thus, the U.S. household glassware industry, as a whole, is likely to be adversely affected by the reduction or elimination of tariffs on all household glass products.

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[13] ITC Report, supra note 1, at 4-32.

[14] Id.

[15] Id. at 4-31.

[16] Neiss, "Crisa Makes Long-Awaited Entry into Crystal with Cien," Housewares, September 18, 1989.

[17] Palmer, "Mexican Invasion: Crisa Targets U.S. Turf," Housewares, November 10, 1986, at 140.

[18] Id.

6. ***Anchor Hocking Proposals for the Negotiations.***

a. ***An Exclusion for Glass.***

As indicated above, we assume the U.S. negotiating objective is to achieve an agreement that advances the economic interest of the United States. From the perspective of the glass industry, an agreement that eliminates tariffs is not in our economic interest. While we understand the natural reluctance to exclude any items from the negotiating table, we note that Mexican negotiators do not hesitate to insist on exclusions when they advance Mexico's economic interest. See, for example, statements by Mexican Secretary of Commerce and Industrial Development Jaime Serra Puche that oil will be off the table, "even if it costs the agreement." The United States should be no less aggressive; if certain industries are excluded, we believe glass should be among them.

b. ***Link tariff cuts to enhanced Mexican protection of the environment and worker safety.***

Ambassador Hills has stated that the Administration is concerned about Mexican environmental protection but wants to negotiate those issues separately from the FTA. But if the Administration wants higher, better enforced environmental rules in Mexico, why should it fail to use one of its foremost inducements -- the leverage of preferential access to the U.S. market -- in the negotiations? The following proposals would use that leverage to achieve Mexican improvements in the vital areas of environmental protection and worker safety:

(1) ***Obtain a satisfactory commitment by Mexico to take appropriate and timely steps to enact and enforce laws to (a) ensure internationally recognized worker rights, and (b) prevent deterioration of the environment as a result of increased economic and trade activity.***

The proposed negotiations with Mexico and Canada are trade negotiations, and are not the vehicle for achieving all objectives in our overall relationships with these countries.

However, it is not only appropriate, but necessary, to discuss in those negotiations practices that distort trade and cripple U.S. competitiveness. Mexico's lesser and inadequately enforced environmental standards not only jeopardize the environment, but also unfairly reduce the costs of Mexican competitors of U.S. firms complying with higher, rigorously enforced environmental standards. Likewise, with respect to internationally recognized worker rights, Mexican practices have not only permitted exploitation of labor in Mexico, but also resulted in job diversion from the United States and increased imports into the U.S. from Mexico. While these practices are objectionable in and of themselves, they are appropriate topics in the trade negotiations because they adversely affect American competitiveness, distort trade and imperil U.S. jobs.

Mexico is a developing country, and cannot be expected to adopt overnight the same laws that developed countries have enacted over time. However, there is no justification for continued inaction or insufficient action by Mexico, when it will benefit substantially from any free trade agreement with the United States and Canada. With the increased GNP and export opportunities that Mexico will reap as a result of such an agreement, it must responsibly take measures to prevent environmental degradation as a result of increased trade, and to comply more completely with internationally recognized worker rights.

(2) ***Request the U.S. International Trade Commission to identify those U.S. industries burdened by unusually high costs of compliance with environmental and worker safety laws.***

To expedite the liberalization of trilateral trade, the governments may be reluctant to tie too closely and rigidly the phase-out of trade barriers to Mexico's enhanced protection of the environment and worker safety. However, because such protection does affect trade directly and significantly, they must be tied. To identify the most appropriate linkage, the U.S. International Trade Commission should be asked to identify those U.S. industries that suffer the largest costs of compliance with environmental and worker safety laws. It is these industries that are likely to be most adversely affected by increased imports from Mexico unless Mexico better protects the environment and worker safety.

(3) Link reduced tariffs and improved market access to enhanced Mexico protection of the environment and worker safety in appropriate cases.

Trade policy generally calls for a gradual phase-in of reduced tariffs and other trade barriers when needed to facilitate adjustment to increased import competition by import-sensitive industries. Such policy is (1) humane and (2) helps generate the necessary political support for freer trade despite some adverse economic affects.

For the same reasons, businesses (and their workers) burdened by unusually high costs of compliance with environmental and worker safety laws should be shielded from an onslaught of imports, until Mexico takes appropriate action to meet its responsibilities for environmental protection and worker safety. Those businesses identified by the U.S. International Trade Commission as disproportionately bearing such costs should be protected in the interim. Indeed, the linkage of trade benefits to enhanced protection by Mexico of the environment and worker safety would provide a significant inducement to expedite its efforts.

(4) Provide for regular, periodic reports on compliance with laws to protect the environment and worker safety in Canada, the U.S. and Mexico.

The primary goal in these negotiations with respect to the environment and worker safety is to avoid the trade distortions that would result from inadequate protection by one member of a trilateral agreement. Once appropriate commitments to protecting the environment and worker safety are obtained, pressure needs to be maintained to ensure strict and faithful compliance with those commitments. A useful tool for this purpose is a requirement for regular, periodic reports on such compliance in each of the countries concerned.

Conclusion

The benefits which Mexico will reap as a result of the FTA should not be at the expense of the U.S. glassware industry, the environment, or worker safety.

The contraction of the U.S. glassware industry over the past two decades has been caused in large part by imports. The import-sensitivity of the glass industry has been continually recognized by the U.S. Government. Despite high tariff rates, imports of glass from Mexico are already high and still growing. In recent years, Mexico has ranked consistently among the top five countries exporting glassware to the United States. Because Mexico has a sophisticated, technologically advanced glass industry that enjoys advantages in wage rates, energy costs and environmental and worker safety rules, across the board tariff reductions will undoubtedly result in a flood of imports into the United States that could devastate the U.S. glassware industry. The adverse impact on the U.S. industry would be compounded because, as the ITC Report indicates, a concomitant increase in U.S. exports of glassware to Mexico is unlikely. Thus, if any industry warrants an exclusion from the U.S.-Mexico FTA negotiations, it is glassware.

Furthermore, it is in the economic interest of not only our own industry, but also the United States to include environmental and worker safety issues in the negotiations. Since Mexican practices in these areas distort trade and adversely affect U.S. competitiveness, it is not only appropriate, but necessary, to discuss them in the FTA negotiations.

EXHIBIT 1

IMPORT PENETRATION OF GLASSWARE[1]
CLASSIFIABLE UNDER
TSUS 546 AND HTSUS 7013
($US thousands)

		1971[2]	1987	1988	1989
1.	Domestic Shipments	399,561	1,263,550	1,362,311	1,382,246
2.	Interplant Transfers	39,540	452,989	575,339	552,344
3.	Exports	25,538	59,450	66,822	85,765
4.	Imports	41,997	549,935	581,472	622,423
5.	Apparent Consumption (1-2-3+4)	416,020	1,301,046	1,301,622	1,366,560
6.	Imports as % of Apparent Consumption (4/5)	10.1-11.2%	42.3%	44.7%	45.5%
7.	Percent Changes:	Apparent Consumption 1987-1989 = + 5.0%			
		Imports 1987-1989 = + 13.2%			

SOURCES: Domestic shipments, interplant transfers, exports and imports are from Department of Commerce, 1971, 1987, 1988, and 1989 Current Industrial Reports for Consumer, Scientific, Technical, and Industrial Glassware: product codes 32291 and 32317, "Table, kitchen, art, and novelty glassware," covering all, and only, merchandise classifiable under the TSUS 546 items and HTSUS 7013 items.

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[1] The import penetration ratio for glassware is calculated based on value because consistent quantity data are not available.

[2] Data for 1971 rather than 1974 (when import-sensitive glass products were exempted from GSP eligibility) have been used because complete data necessary to calculate import penetration for 1974 were unavailable. Because data for 1971 provided only an aggregate figure that included both interplant transfers and U.S. shipments of other handmade table, kitchen, art and novelty glassware, the possible range of import penetration was calculated using both zero for interplant transfers and the aggregate amount that includes interplant transfers.

EXHIBIT 2

1989 IMPORT PENETRATION: STEEL AND TEXTILES
(Quantity in Net Tons)

STEEL:

Product	Producers' Net Shipments*	Exports	Imports	Apparent Supply	Percent Imports to Apparent Supply
Carbon Steel Stainless Steel Tool Steel Other Alloy Steel	84,100,392	4,577,944	17,333,311	96,855,759	17.9%

SOURCE: American Iron and Steel Institute, Apparent Supply of Steel Mill Products (1989).

* The import penetration ratio of steel is based on quantity, which are the only data available.

TEXTILES:

Products	Producers' Shipments*	Exports ($ millions)	Imports ($ millions)	Apparent Consumption	Ratio of Imports to Apparent Consumption
Apparel	66,397	2,372	26,746	90,771	29.47%
Textile Mill Products	69,236	2,794	8,304	74,796	11.11%
Total Apparent Consumption	135,633	5,166	35,050	165,517	21.2%

SOURCES: Producers' Shipments: 1991 Industrial Outlook
Exports and Imports: U.S. International Trade Commission, Textiles Division

* The import penetration ratio for textiles and apparel is based on value.

EXHIBIT 3

IMPORT COMPARISONS (BY QUANTITY) OF GLASSWARE CLASSIFIABLE UNDER TSUS 546 AND HTSUS 7013[1]
1984-1990

	1984	1990
Mexico:	29,757,115	49,740,480
Percent Change: 67%		
Israel:	25,450	86,871
Percent Change: 241%		
Trinidad/Tobago:	0	449,015
Percent Change: Not calculable		
Mexico: (Glassware Products valued over $3.00)	320,841	742,614
Percent Change: 131%		
Mexico: (Glassware Products valued above $3.00 plus products that are not broken down by value)	3,657,034	16,917,004
Percent Change: 374%		

SOURCE: U.S. Department of Commerce, IM 146 Reports.

[1] 1990 import levels do not include 70131010 and 70131050 which were not part of TSUS 546.

EXHIBIT 4

UNPUBLISHED DATA

HOURLY COMPENSATION COSTS FOR PRODUCTION WORKERS
GLASS AND GLASSWARE MANUFACTURING (US SIC 321-3)
16 COUNTRIES, 1975 AND 1979-89

PREPARED BY: U.S. DEPARTMENT OF LABOR, BUREAU OF LABOR STATISTICS,
OFFICE OF PRODUCTIVITY AND TECHNOLOGY, SEPTEMBER 1990.

HOURLY COMPENSATION COSTS FOR PRODUCTION WORKERS IN U.S. DOLLARS
GLASS AND GLASSWARE MANUFACTURING (US SIC 321-3)

1975 AND 1979-89

COUNTRY OR AREA	1975	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
UNITED STATES	6.85	9.97	11.02	12.27	13.31	13.99	14.13	14.68	14.95	15.26	15.68	16.13
CANADA	6.29	7.88	8.68	9.31	10.25	11.36	11.78	11.45	11.54	12.57	14.24	15.18
MEXICO	1.69	2.14	2.37	3.21	2.26	[illegible]	1.81	1.83	1.37	1.39		

HOURLY COMPENSATION COSTS FOR PRODUCTION WORKERS, INDEX U.S. = 100
GLASS AND GLASSWARE MANUFACTURING (US SIC 321-3)

1975 AND 1979-89

COUNTRY OR AREA	1975	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
UNITED STATES	100	100	100	100	100	100	100	100	100	100	100	100
CANADA	91	79	78	76	77	81	83	78	77	82	91	94
MEXICO	25	21	23	26	17	12	13	13	9	9		

(1) INDUSTRY NOTES:
IRELAND: GLASS & CERAMIC PRODUCTS.

SEE SEPARATE APPENDIX FOR DEFINITIONS, METHODS, DATA LIMITATIONS, CURRENCY EXCHANGE RATES, AND COUNTRY NOTES.

SOURCE: U.S. BUREAU OF LABOR STATISTICS, SEPTEMBER 1990.

International Comparisons
of Hourly Compensation Costs
for Production Workers
in Manufacturing,
1975, 1980 and 1983-89

SUPPLEMENTARY TABLES
for BLS Report 794
October 1990

U.S. Department of Labor
Bureau of Labor Statistics
Office of Productivity and Technology
October 1990

Table 1. Indexes of hourly compensation costs for production workers in manufacturing, 34 countries or areas, 1975, 1980 and 1983-89

(Index, U.S. = 100)

Country or area	1975	1980	1983	1984	1985	1986	1987	1988	1989
United States	100	100	100	100	100	100	100	100	100
Canada	91	88	90	88	83	83	89	98	123
Brazil	14	14	10	9	9	11	10	11	12
Mexico	31	30	15	16	16	11	12	14	16
Venezuela	32	33	-	-	-	-	-	-	-

Table 2. Hourly compensation costs in U.S. dollars for production workers in manufacturing, 34 countries or areas, 1975, 1980 and 1983-89

Country or area	1975	1980	1983	1984	1985	1986	1987	1988	1989
United States	$6.36	$9.84	$12.10	$12.51	$12.96	$13.21	$13.66	$13.85	$14.31
Canada	5.79	8.37	10.88	10.99	10.80	11.00	11.95	13.53	16.72
Brazil	.87	1.38	1.24	1.07	1.12	1.47	1.36	1.56	1.72
Mexico	2.00	2.96	1.88	2.06	2.00	1.50	1.57	1.99	2.32
Venezuela	2.03	3.44	-	-	-	-	-	-	-

EXHIBIT 5

1989 Annual Report Submitted by the Board of Directors of Vitro, Sociedad Anónima

Sales and Earnings

Sales to the domestic market behaved similarly to the previous year as a result of an increase in sales volume which made up for the depressed prices.

Export sales, on the other hand, continued their vigorous diversification, making it possible for GRUPO VITRO's companies to have a presence, through their products, in a growing number of countries and in new markets. This strategy enabled us to practically maintain our export levels.

As a consequence of the sales price controls resulting from the Pact, operating profit registered a sensible reduction with respect to the previous year. Notwithstanding the benefit of non-recurring financial gains, net income decreased by 1%.

VITRO GLASSWARE

Despite the import tariff disadvantage existing in Mexico and the countries with whom we have trade relations, the Division achieved favorable results. Sales volume increased by 8% due to a timely change in marketing strategies.

Sales abroad continued their upward trend with 6% growth, representing 34% of the total sales of this Division.

The presence of our products continues to expand in the United States market. During the year, we opened a factory outlet in Vacaville, California.

The personnel of this Division deserves special recognition for having launched the new line of lead crystal products, known as *Cicn*, aimed to the top layer of the export market. This product combines the use of advanced technology, innovative design, and new marketing practices, which will enable us to compete with products of worldwide renown.

Despite the loss of competitiveness of the peso against the yen and European currencies, exports to Japan and Europe continue to be successfully promoted.

Utilization of installed capacity in the Division was 73% compared to 70% of the previous year.

ro Glassware

For more than fifty years, when the first of the Vitrocrisa companies -Cristalería, S.A.- was constituted, our efforts have been aimed at meeting the needs of the houseware and gift markets with glassware, tableware and ovenware products, glass lighting parts, ornaments and decorative items, offering the consumer a wide range of quality products under the umbrella of our prestigious trademarks: *Crisa, Termo-crisa, Pyr-o-Rey, Fortecrisa, Pyr-o-Ware, Kristaluxus and Cufin.* An extensive and diversified network of distributors back-up our service level, enabling us to satisfy the needs of industrial clients and consumers, thereby consolidating our leadership in the majority of the markets we serve.

Continuing with our exporting tradition, we have increased our share in international markets. Our exports maintained their continued growth and represented 35% of our consolidated sales. Crisa Corporation, our sales and marketing company in the United States, continues to be one of the leading suppliers of glassware and glass lighting parts, tableware, ovenware, and industrial products made of borosilicate glass for the United States and Canadian markets.

STATEMENT OF NON-FERROUS METALS PRODUCERS COMMITTEE

I. Introduction

The Non-Ferrous Metals Producers Committee (NFMPC)[1] submits that any free trade agreement to be negotiated between the United States and Mexico should address carefully several important issues that affect U.S-Mexican economic relations in the mining and metals sector. These issues include tariffs, country of origin rules, government subsidization, and investment restrictions. As the President has declared his intention to pursue a U.S.-Mexico free-trade area through negotiation of a broader North American Free-Trade Agreement (NAFTA) including both Mexico and Canada, the NFMPC submits that these issues must be addressed with careful consideration to both the current provisions of the U.S.-Canada Free-Trade Agreement (FTA) and the as yet unresolved problem of continued Canadian Government subsidization of its non-ferrous metals industry.

II. Tariffs

A NAFTA should provide for the mutual elimination of U.S. and Mexican tariffs on the products of the copper, lead, and zinc industries and should do so through a phase-out schedule that recognizes the wide difference between the relatively high Mexican tariffs and the low U.S. tariffs. Exhibit A provides the current most-favored-nation (MFN) tariffs of the United States and Mexico for the major products and by-products of these industries.[2] All of the Mexican tariffs are at 10.0 percent ad valorem, except one at 15.0 percent ad valorem.[3] In contrast, the highest U.S. tariff on any of the products concerned is 4.0 percent ad valorem. Furthermore, Mexico's exports of almost all of the relevant products are eligible for duty-free entry into the United States under the U.S. Generalized System of Preferences (GSP) program. In any phase-out arrangement, the Mexican tariffs should be phased-out on a faster schedule than the U.S. tariffs, reflecting the need rapidly to bring the high Mexican tariffs into parity with low U.S. tariffs.[4]

U.S.-Mexican general trade relations are large and important to each country. In 1989, the United States exported goods worth $25 billion to Mexico and imported

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[1]The NFMPC is a trade association of U.S. producers of primary copper, lead, and zinc. The members of the NFMPC are ASARCO Incorporated, the Doe Run Company, and Magma Copper Company.

[2]Exhibit B provides the 1991 tariff rates for U.S.-Canadian bilateral trade under the FTA.

[3]The Mexican tariff rates are current "effective" tariffs, not GATT "bound" tariff rates which are a uniform 50 percent ad valorem.

[4]Under the U.S.-Canada FTA, U.S. tariffs on copper, lead, and zinc products are being phased out. The NFMPC has opposed the acceleration of the phase-out of the U.S. tariffs on imports from Canada of the products of the U.S. industry requested under Article 401(5) of the U.S.-Canada FTA. The acceleration of the phase-out of the tariffs on such products would be inappropriate in light of the prevalence of Canadian Government subsidy practices benefiting the Canadian non-ferrous metal industry.

goods worth $27.2 billion.[5] Mexico is the United State's third largest export market. The United States is clearly the most important export market for Mexico, as the United States takes about 60 percent of total Mexican exports.

U.S.-Mexican trade in copper, lead, and zinc is also significant, as shown in Exhibits C and D. In 1989, the United States imported $223 million of these products from Mexico and exported $31 million of them to Mexico.[6] The mutual elimination of tariffs could increase U.S.-Mexican trade in these goods in a mutually advantageous way.

III. Country of Origin

The NAFTA should incorporate the same "country of origin" rule with regard to copper, lead, and zinc products that was adopted in the U.S.-Canada FTA. That rule, if properly enforced, would prevent imports from being channeled into the United States through Mexico or Canada from a third country whose products do not qualify for preferential duty treatment under an FTA.

IV. Government Subsidization

A NAFTA must provide for increased discipline on subsidy practices that result in trade distortions. Foreign government subsidization is a particular problem for the U.S. metal mining and processing industry. Especially during periods of cyclical downturn in the market, government assistance programs have permitted uneconomic foreign producers to avoid curtailing operations and to shift the burden of adjustment to falling price levels from themselves to producers in other countries, such as the United States, that do not benefit from such subsidies.

The Mexican Government has had many assistance programs for its industries in the past, although it has reportedly begun eliminating various programs. The fact that such programs have benefitted Mexican exports to the United States is indicated by the numerous U.S. countervailing duty (CVD) orders issued in the past against imports from Mexico.[7]

While the current Mexican Government's market-oriented policies are clearly moving in a positive direction, there is no guarantee that they might not change in the future. Therefore, a NAFTA should explicitly provide for the elimination of Mexican Government export and domestic subsidy programs that affect trade with the United States.

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[5]Office of the U.S. Trade Representative, 1990 National Foreign Trade Estimate: Report on Foreign Trade Barriers, "Mexico," p. 141.

[6]U.S.-Canadian trade in non-ferrous metals is larger still. As shown in Exhibits E and F, U.S. imports of copper, lead, and zinc products amounted to $1.1 billion in 1989, while U.S. exports of these products were valued at $80 million.

[7]At the beginning of 1989, there were 16 outstanding CVD orders involving Mexican products. U.S. International Trade Commission, Review of Trade and Investment Liberalization Measures by Mexico and Prospects for Future United States-Mexico Relations, Investigation No. 332-282, April 1990, p. 4-18.

The FTA should similarly address the problems of natural resource "in-put" subsidies and "up-stream" subsidies. As the Mexican Government still maintains subsidy programs, the current recourse to the U.S. CVD and antidumping laws should be preserved. The fact that the United States was not successful in persuading Canada to agree to subsidy disciplines in the U.S.-Canada FTA should not be interpreted as a reason to exclude subsidy discipline from the goals of a NAFTA, but rather should be understood as a warning of the importance of achieving such discipline with Mexico within the NAFTA, lest the issue be permitted to linger as a trade problem, as has been the case with Canada.[8] The possible extension of the Uruguay Round Subsidy Negotiations should not be permitted to prevent negotiation of subsidy disciplines within a NAFTA.

The U.S. industry continues to be alarmed by the apparent persistence of the Canadian Government's willingness to provide subsidies to its non-ferrous metals industry even while the United States and Canada have been engaged in multilateral subsidy negotiations under the GATT. In addition, even two years after its formation, the U.S.-Canada FTA Working Group on subsidies has not yet begun serious work on a U.S.-Canadian subsidies agreement that would impose some discipline on Canadian subsidy practices.[9] As recently as last year, major additional Canadian subsidies for the non-ferrous metals industry appear to have been under consideration by the Canadian federal and provincial governments. For example, attached at Exhibit G is an article from an industry publication reporting that Hudson Bay Mining and Smelting Corporation is about to secure Canadian Federal Government and Manitoba Provincial Government financing for its $170 million modernization and pollution control project for its Flin Flon, Manitoba smelter.[10]

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[8]Congress has specifically recognized the special sensitivity of this industry to the potential adverse impact of subsidized imports from Canada. For example, the Senate Finance Committee cited the non-ferrous metals industries as deserving special emphasis by the U.S.-Canada FTA Working Group to negotiate new subsidy rules and disciplines under FTA Article 1907. The report of the Senate Finance Committee states that in the Working Group negotiating with Canada,

> [s]pecial emphasis should be given to obtaining discipline on Canadian subsidy programs that adversely affect U.S. industries which directly compete with subsidized imports, including but not limited to, coal mining, oil and gas production, non-ferrous metal mining and smelting, agricultural production, fisheries, and forest products industries.

Senate Finance Committee, "Approving and Implementing the United States-Canada Free-Trade Agreement," 100th Congress, 2nd session, Report 100-509, p. 41, emphasis added.

[9]The extension of the Uruguay Round Subsidy Negotiations could cause the postponement of the Working Group negotiations for an additional two years.

[10]Pursuant to Section 409(b) of the U.S.-Canada FTA Implementation Act, the NFMPC, the Phelps Dodge Corporation, and Zinc Corporation of America requested the

U.S. administration officials have indicated that the NAFTA would not replace the U.S.-Canada FTA. Rather, it "sets the floor for commitments" and provides "an opportunity to improve and expand" the U.S.-Canada FTA.[11] In this sense, the NAFTA provides an excellent opportunity to pursue the goal of discipline on Canadian Government subsidies that alluded the original FTA negotiations.

It is imperative that negotiations with Mexico not repeat the mistake of excluding subsidy discipline from the body of a NAFTA agreement itself. The benefits of a trilateral NAFTA market could be endangered if Canada does not eliminate its government subsidy programs. Mexico could have reason to object to free trade arrangements with Canada if the Canadian Government were to continue to insist on maintaining its system of governmental assistance programs. In summary, the NFMPC submits that under no conditions should a NAFTA be concluded with Mexico that does not provide for real discipline on Mexican Government subsidies.

V. Investment Restrictions

Foreign investors can have 100 percent ownership and control of mining properties in the United States. A goal of NAFTA negotiations should be to assure equal status for U.S. investors in Mexico. The U.S.-Canada FTA generally affords national treatment to U.S. and Canadian investors in each other's country. A provision granting national treatment for investments in the non-ferrous mining and processing industry in Mexico should be a goal in the NAFTA negotiations.

In the past, Mexican law has severely limited foreign ownership of Mexican mining operations. However, in 1989, Mexico began a series of reforms to its foreign investment regulations, and in 1990 passed new legislation that takes significant steps toward liberalization of Mexico's restrictions on foreign investors in the mining sector.

Under the new provisions, the NFMPC understands that it is theoretically possible for a U.S. investor to hold 100 percent ownership of a Mexican metal mining and processing operation by means of a special "trust" (fideicomiso) mechanism, but only for up to 12 years.[12] A U.S. investor might hold 49 percent interest outright, but the remaining 51 percent would have to be held by a trust. The investor would hold beneficial rights with respect to the shares acquired by the trust, but a Mexican credit institution, such as a bank, would have to act as the foreign investor's trustee for that investment. During the

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Office of the U.S. Trade Representative (USTR) to compile and make information available to the U.S. non-ferrous metals industry information under Section 308 of the Trade Act of 1974 regarding Canadian federal and provincial government assistance to the Canadian copper, lead, and zinc industries. On February 13, 1991, USTR made available the information that it had compiled. The NFMPC is currently studying the information provided by USTR.

[11]"Statement by United States Trade Representative Carla A. Hills," USTR, February 5, 1991, p. 11.

[12]It appears that trusts for up to 20 years may also be possible in limited circumstances but only with numerous restrictions.

thirteenth year of the trust, the foreign owner must sell the 51 percent share to Mexican interests. Reportedly one option is to sell these shares through the Mexican stock exchange.

These changes in Mexican investment law and regulations with regard to the mining sector are welcomed. However, in the context of the greatly expanded interactions between two economies that come with implementation of an FTA, U.S. investors in the Mexican metal mining and processing sector should be eligible to receive "national treatment," i.e., treatment no less beneficial than that available to investors who are Mexican nationals. Accordingly U.S. investors in these mining sectors should be free of the restrictions still placed on foreigners and both investment capital for mining projects and goods that are produced in them should flow according to the dictates of free market forces.

VI. Conclusion

A NAFTA including Mexico must address the major issues affecting trade and investment relations between the United States and Mexico. It should provide for the elimination of tariffs according to an appropriate phase-out schedule, establish a country-of-origin rule based on the U.S.-Canada FTA, provide for discipline on government subsidization, and permit U.S. investment in Mexican metal mining and processing on a national treatment basis. The U.S. experience with the U.S.-Canada FTA negotiations makes clear that all such issues should be settled within a U.S.-Mexico FTA and not left for later and separate negotiations.

Exhibit A

U.S. AND MEXICAN TARIFFS ON THE PRODUCTS AND BY-PRODUCTS OF THE PRIMARY COPPER, LEAD, AND ZINC INDUSTRIES

	COMMODITY	U.S. HS TARIFF CATEGORY	U.S. MFN DUTY 1990	MEXICAN DUTY 1990
LEAD,	Ores and concentrates	2607.00.00.00.0	1.7 cents/kg on lead content *	10.0%
	Unalloyed Unwrought	7801.10.00.00.4	3.0% but not less than 2.3424 cents/kg	10.0%
ZINC,	Ores and concentrates	2608.00.00.00.0	1.7 cents/kg on lead content *	10.0%
	Unalloyed Unwrought	7901.11.00.00.2	1.5%	10.0%
	Zinc Oxide	2817.00.00.00.9	Free	10.0%
COPPER,	Ores and concentrates	2603.00.00.00.0	Free	10.0%
	Blister/Anode	7402.00.00.00.9	1.0% on the value of copper content	10.0%
	Refined			
	Cathode	7403.11.00.00.5	1.0%	10.0%
	Wire bar	7403.12.00.00.4	1.0%	10.0%
	Billets	7403.13.00.00.3	1.0%	10.0%
	Other	7403.19.00.00.7	1.0%	10.0%
	Continuous Cast Rod	7408.11.60.00.7	4.0%	15.0%
CADMIUM		8107.10.00.00.3	Free	10.0%
BISMUTH,	Unalloyed	8106.00.00.00.6	Free	10.0%
ANTIMONY,	Unalloyed	8110.00.00.00.0	Free	10.0%
SULFURIC ACID		2807.00.00.00.1	Free	10.0%

* Duty on only the lead content of the ores and concentrates.

Exhibit B

filename:NFM_FTA3
22-Feb-91

U.S. AND CANADIAN TARIFFS ON THE
PRODUCTS AND BY-PRODUCTS OF THE PRIMARY LEAD, ZINC, AND COPPER INDUSTRIES

COMMODITY		U.S. HS TARIFF CATEGORY	U.S. DUTY 1991	CANADIAN DUTY 1991
LEAD,	Ores and Concentrates *	2607.00.00.00.0	1.1 cents/kg	Free
	Unalloyed Unwrought	7801.10.00.00.4	2.1% on the value of the lead content	
ZINC,	Ores and Concentrates *	2608.00.00.00.0	1.1 cents/kg	Free
	Unalloyed Unwrought	7901.11.00.00.2	1.0%	Free
	Zinc Oxide	2817.00.00.00.9	Free	7.35%
COPPER,	Ores and Concentrates *	2603.00.00.00.0	Free	Free
	Blister / Anode	7402.00.00.00.9	0.4% on the value of the copper content	Free
	Refined			
	Cathode	7403.11.00.00.5	0.4%	Free
	Wire Bar	7403.12.00.00.4	0.4%	1.6%
	Billets	7403.13.00.00.3	0.4%	Free
	Other	7403.19.00.00.7	0.4%	
	Continuous Cast Rod	7408.11.60.00.7	2.8%	3.2%
CADMIUM		8107.10.00.00.3	Free	Free
BISMUTH,	Unalloyed	8106.00.00.00.6	Free	Free
ANTIMONY	Unalloyed	8110.00.00.00.0	Free	1.6%
SULURIC ACID		2807.00.00.00.1	Free	Free

* Report value only of stated mineral content.

Source: Harmonized Tariff Schedule, 1991. United States-Canada Free-Trade Agreement.

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Exhibit C

filename: NFM_FTA4
22-Feb-91

U.S. IMPORTS OF LEAD, ZINC, AND COPPER
FROM MEXICO

Quantity and Customs Value, 1988-1990

	1988		1989		January-November 1990 *		TSUSA NO.	HTS NO.
	short tons	dollars	short tons	dollars	short tons	dollars		
LEAD								
Ores and Concentrates	0.0	$0	27.5	$15,608	1,041.4	$521,793	602.1011	2607.00.0020
Unalloyed Unwrought	31,970.9	$20,227,000	17,227.5	$11,051,597	15,218.9	$10,821,011	624.0350	7801.10.0000
ZINC								
Ores and Concentrates	0.0	$0	18,086.4	$9,114,000	25,065.1	$7,271,592	602.2012	2608.00.0030
Unalloyed Unwrought	67,182.7	$70,494,000	78,062.7	$115,330,412	75,642.2	$105,359,040	626.0200	7901.11.0000
Zinc Oxide	27,605.7	$23,165,000	17,649.2	$23,782,556	15,333.1	$19,552,027	473.7600	2817.00.0000
COPPER								
Ores and Concentrates	0.0	$0	45,124.5	$38,704,102	129,894.9	$118,503,609	602.3013	2603.00.0010
	1,050.2	$1,937,000					602.3033	
Blister / Anode	1,144.7	$1,960,000	7,414.2	$24,902,482	17,232.0	$43,530,428	612.0330	7402.00.0000
Refined								
Cathode	46.5	$92,000	179.6	$438,153	81.2	$161,283	612.0640	7403.11.0000
Wire Bar	--	--	0.0	$0	0.0	$0		7403.12.0000
Billet	--	--	0.0	$0	0.0	$0		7403.13.0000
Other	--	--	1.7	$3,492	0.0	$0		7403.19.0000
Continuous Cast Rod	2,996.4	$10,746,000	0.6	$3,662	0.0	$0	612.7260	7408.11.6000

* Note: Full year data for 1990 are not yet available.

Source: Department of Commerce (Bureau of the Census).

Exhibit D

filename: NFM_FTA5
22-Feb-91

U.S. EXPORTS OF LEAD, ZINC, AND COPPER TO MEXICO

Quantity and FAS Value: 1989 and 1990

	January-December 1989		January-November 1990 *		HTS No.
	short tons	dollars	short tons	dollars	
LEAD					
Ores and Concentrates	1,040.5	$303,426	111.3	$31,309	2607.00.0020
Unalloyed Unwrought	31.4	$96,446	0.0	$0	7801.10.0000
ZINC					
Ores and Concentrates	526.4	$759,347	279.5	$211,149	2608.00.0030
Unalloyed Unwrought	26.7	$56,770	0.0	$0	7901.11.0000
Zinc Oxide	981.7	$1,252,513	937.4	$864,003	2817.00.0000
COPPER					
Ores and Concentrates	8.5	$7,720	1.9	$3,975	2603.00.0010
Blister / Anode	117.1	$173,933	213.1	$333,152	7402.00.0000
Refined					
Cathode	7,578.8	$19,885,687	6,058.8	$15,032,069	7403.11.0000
Wire Bar	252.8	$570,943	22.9	$35,960	7403.12.0000
Billets	0.0	$0	2.8	$3,846	7403.13.0000
Other	265.3	$423,178	70.9	$165,818	7403.19.0000
Continuous Cast Rod	2,447.5	$7,462,070	1,773.0	$5,463,109	7408.11.6000

* Note: Full year data for 1990 are not yet available.

Source: Department of Commerce (Bureau of the Census).

Exhibit E

filename: NFM_FTA1
22-Feb-91

U.S. IMPORTS OF LEAD, ZINC, AND COPPER
FROM CANADA

Quantity and Customs Value, 1988-1990

	1988		1989		January-November 1990 *		TSUSA NO.	HTS NO.
	short tons	dollars	short tons	dollars	short tons	dollars		
LEAD								
Ores and Concentrates	9,006.7	$3,994,000	2,178.4	$745,170	1,428.4	$401,264	602.1011	2607.00.0020
Unalloyed Unwrought	101,160.8	$66,569,000	40,796.9	$29,108,382	44,239.1	$33,299,234	624.0350	7801.10.0000
ZINC								
Ores and Concentrates	3,937.1	$657,000	21,637.4	$11,081,002	18,450.1	$6,982,349	602.2012	2608.00.0030
Unalloyed Unwrought	471,253.5	$477,792,000	309,628.9	$470,042,825	207,631.5	$297,643,470	626.0200	7901.11.0000
Zinc Oxide	35,584.8	$39,703,000	35,046.2	$52,917,682	27,944.4	$38,298,159	473.7600	2817.00.0000
COPPER								
Ores and Concentrates	0.0	$0	0.0	$0	0.0	$0	602.3013	2603.00.0010
Blister / Anode	0.0	$0	206.7	$1,121,982	1.4	$21,142	612.0330	7402.00.0000
Refined								
Cathode	195,995.7	$440,755,000	194,001.4	$494,016,532	185,082.7	$433,223,409	612.0640	7403.11.0000
Wire Bar	--	--	26.0	$47,388	0.0	$0		7403.12.0000
Billet	--	--	2,991.8	$8,005,686	2,703.2	$6,600,504		7403.13.0000
Other	--	--	2,294.6	$6,355,012	1,188.1	$2,965,512		7403.19.0000
Continuous Cast Rod	220.6	$654,000	68.3	$174,263	20.8	$53,280	612.7260	7408.11.6000

* Note: Full year data for 1990 are not yet available.

Source: Department of Commerce (Bureau of the Census).

Exhibit F

filename: NFM_FTA2
22-Feb-91

U.S. EXPORTS OF LEAD, ZINC, AND COPPER TO CANADA

Quantity and FAS Value: 1989 and 1990

	January–December 1989		January–November 1990 *		HTS No.
	short tons	dollars	short tons	dollars	
LEAD					
Ores and Concentrates	42,666.1	$12,772,825	21,477.9	$12,420,589	2607.00.0020
Unalloyed Unwrought	3,227.8	$2,361,283	6,805.2	$5,610,579	7801.10.0000
ZINC					
Ores and Concentrates	47,145.8	$26,843,081	88,884.0	$89,478,152	2608.00.0030
Unalloyed Unwrought	203.1	$376,144	419.0	$657,544	7901.11.0000
Zinc Oxide	586.7	$1,293,984	1,800.6	$2,075,731	2817.00.0000
COPPER					
Ores and Concentrates	12,123.8	$18,452,520	17,248.1	$20,944,570	2603.00.0010
Blister / Anode	3,473.4	$7,641,267	2,924.0	$6,764,239	7402.00.0000
Refined					
Cathode	1,141.8	$1,568,063	123.3	$274,307	7403.11.0000
Wire Bar	2.6	$3,488	86.9	$228,654	7403.12.0000
Billets	1,798.8	$2,446,250	1,148.5	$3,559,071	7403.13.0000
Other	2,271.9	$3,310,111	595.8	$1,539,080	7403.19.0000
Continuous Cast Rod	1,130.0	$3,588,233	0.0	$0	7408.11.6000

* Note: Full year data for 1990 are not yet available.

Source: Department of Commerce (Bureau of the Census).

Exhibit G

AMERICAN METAL MARKET
12/11/90

Hudson Bay settles; plans $170M upgrade

Union workers get wage hike, signing bonus

By MARTIN FARRICKER

NEW YORK—The path for a $170-million cleanup and modernization project at Hudson Bay Mining & Smelting Co. Ltd.'s Flin Flon smelter and Snow Lake mining operations in Manitoba was cleared Friday with the signing of a labor accord with the United Steelworkers uninn.

The old labor pact at Flin Flon, where output consists of 82,000 tons of zinc and 63,000 tons of copper annually, had run out Sept. 30. The workers, who had remained on the job, agreed last week to accept "significant" wage and benefit increases, according to Peter Jones, vice president of operations at Flin Flon.

Under the new three-year contract, Jones said, workers will receive wage hikes of 9.1 percent in 1991, 4.9 percent in 1992 and 4.6 percent in 1993, a $500 signing bonus and "various benefits increases," including profit-sharing of 10 percent of the company's pretax earnings in 1992 and 1993.

Prior to the latest agreement, an average Hudson Bay tradesman received $16.49 an hour while the comparable pay scale at most Canadian mining companies "currently is between $18 and $20 an hour," Jones said.

USW representative Robert Imrie said the contract passed by a 61-percent majority vote.

"Everyone's happy that he is going to get the increase before (start-up of) the modernization," Imrie said. "There was

(See HUDSON, page 8)

(Continued from page 1)

some question about whether workers would get what they wanted with the company, but with the contract signed they feel a lot better now."

Dale Powell, Hudson Bay vice president of human resources, said the labor agreement and the planned modernization, aimed at meeting tighter environmental restrictions by the Canadian government, "are not directly tied together."

But Powell added that the company has been "working to secure financing for the project for some time" and expects the plan to be "finalized by the end of the month."

However, Hudson Bay more than six months ago reported it was "nearing completion" of arranging financing.

John J. Ellis, chairman and chief executive officer, in June said, "We expect to reach an agreement with the Canadian federal and Manitoba provincial governments to secure financing of a project to reduce emissions at our Flin Flon project."

"The biggest issue we're facing is meeting a specific time frame to complete the project," Powell said, adding Hudson Bay must reduce sulfur-dioxide emissions from the Flin Flon smelter by 25 percent and cut particulate emissions by 40 percent before 1994.

Stephen Briggs, an analyst for Metals & Mining Research Service Ltd., London, said, "The smelter at Flin Flon is pretty dirty and it will cost a great deal of money to clean it up. I believe they are attempting to get financing from the Canadian government to help pay for the project."

Hudson Bay's Powell said the company is continuing its efforts "to put financing together." A source at Inspiration Resources Corp., which holds a major stake in Hudson Bay, said the money could come from "several banking institutions in addition to government sources."

The company did not say whether either the Flin Flon smelting or refining operations would be shuttered for an extended period during the project, in which case the company would have to ship the mines' output to alternative smelting operations or store concentrates, Metals & Minerals' Briggs said.

THE PROCTER & GAMBLE COMPANY
GENERAL OFFICES
2 PROCTER & GAMBLE PLAZA, CINCINNATI, OHIO 45202-3314

February 22, 1991

The Honorable Sam M. Gibbons, Chairman
Subcommittee on Trade
Committee on Ways and Means
1102 Longworth House Office Bldg.
Washington, DC 20515

Dear Sir:

Re: Hearings On Proposed Negotiation of A Free Trade Agreement With Mexico

The opportunity you have provided to comment on the important benefits to the United States resulting from a Free Trade Agreement between this country and Mexico is very much appreciated.

Procter & Gamble encourages the Congress to provide "fasttrack" procedures for negotiation of a free trade agreement with Mexico. From the perspectives of our own business operations, we anticipate that we can make more efficient use of our manufacturing operations and reduce our costs in both countries. This will improve the values we offer to consumers as well as our profitability. To fulfill these opportunities, however, it is necessary that an Agreement be comprehensive and address issues such as investment requirements, price controls, intellectual property protection and differential technical standards.

While an agreement will benefit both countries, it is likely to have a more apparent impact in Mexico. This is simply a reflection of the ten-to-one difference in the level of consumer disposable income between the two countries. Nevertheless, reducing this discrepancy will provide important benefits to the United States. For example, the significant economic changes already made by the Salinas Administration have supported the rapid growth in our consumer products business in Mexico. An FTA will accelerate this growth.

Our Mexican sales are largely based on Mexican production, just as our U.S. business is based on U.S. production. This basic pattern is unlikely to change with a Free Trade Agreement. Nevertheless, our Mexican business uses substantial quantities of materials, equipment and services that are exported from the United States. Today, the exports to our 3,000 employees in our Mexican operations support approximately 1,500 jobs in this country.

These exports are already growing very rapidly, having increased by almost 100% in the past three years. This expansion should be accelerated by an FTA, since Mexican consumers will be able to buy increased quantities of our products.

Studies of the opportunities an FTA should create for our business indicate that it should increase the net number of U.S. jobs supported by our trade with Mexico to a total of 3,500 jobs, an increase of 133%. Most of these jobs will be with our suppliers rather than on our own payroll.

We are confident that this export growth will be experienced broadly by American business.

Overall, we expect that U.S. employment will grow as the result of an FTA with Mexico, particularly in the high-skill/wage sectors. It should be noted that existing U.S. duties on manufactured goods are already quite low for most industrial sectors. Therefore, in these sectors, the jobs that can transfer to Mexico in search of lower wage costs can do so today -- if they have not already gone.

There are, of course, some sectors where high tariffs and import quotas have artificially supported production in the U.S. It will be important that these sectors be provided adequate opportunities to adjust through appropriate phase-in periods and safeguards provisions.

An FTA will also be very beneficial in the area of environmental protection. Mexico, faced with the need to improve its results in this area, is severely constrained by its low per capita income. When a substantial portion of a population is on the edge of day-to-day survival, longer term issues including environmental protection, cannot be fully addressed. Supporting actions that build Mexico's economy will strengthen their ability to work on this area. However, tying environmental advances -- as necessary as they are -- to limitations on achieving economic development will be counterproductive to both issues. A more constructive approach would be to include differences in environmental standards and enforcement in a general procedure for addressing differences in technical standards during the implementation process -- a process that would be somewhat analogous to that used for accelerated tariff eliminations under the Canada FTA.

In summary, we are convinced that a Free Trade Agreement, while creating some interim adjustment costs, will, in the long term, provide only net benefits.

Very truly yours,

D. J. Elliott
Associate Director
International Trade

DJE/1422E

STATEMENT OF ALFREDO SALAZAR, JR.
ADMINISTRATOR, ECONOMIC DEVELOPMENT ADMINISTRATION
COMMONWEALTH OF PUERTO RICO

BEFORE THE
SUBCOMMITTEE ON TRADE
OF THE HOUSE COMMITTEE ON WAYS AND MEANS

FEBRUARY 25, 1991

I. INTRODUCTION

Mr. Chairman and Members of the Committee, it is my pleasure to present this statement on behalf of the Government of the Commonwealth of Puerto Rico to the Committee regarding the proposed free trade agreement between Mexico and the United States. This statement will discuss the economic impact of the proposed free trade agreement on the rum industry of Puerto Rico and on the economy of Puerto Rico in general. Specifically, the proposed agreement would place the rum industry of Puerto Rico at a tremendous competitive disadvantage, with serious economic consequences to the Commonwealth of Puerto Rico.

Puerto Rico is cognizant of the important economic and political implications of the proposed agreement between Mexico and the United States. However, Mexico is a nation rich in natural resources, with vast territorial expanses and an advantageous geographical location, affording its products direct land access to the rich consumer markets of the United States. Extending to Mexico the benefit of duty-free treatment for its rum products (and other distilled spirits) would place Mexico at a considerable competitive advantage over rum produced in Puerto Rico.

II. THE IMPORTANCE OF THE RUM INDUSTRY TO PUERTO RICO

The Puerto Rican rum industry is a major contributor to the economy of Puerto Rico. The industry employed about 780 workers directly in 1988 and produced an additional 1.53 jobs in supplier industries. When the multiplier effects of these well-paid workers' consumption spending are also taken into account, an additional 4.05 jobs are created for each direct job in the industry.[1] Thus, it is estimated that in 1988 the industry was responsible for over 3,900 jobs on the island. For a densely populated island of 3.3 million U.S. citizens, with few natural resources, an unemployment rate of about 14 percent and a per capita income of less than one-third of the overall U.S. average, the continued operation of this industry is of great importance.

As shown in the table below, sales of Puerto Rican rum in the U.S. market have declined in recent years so that in 1989 they represented only about 80 percent of total rum sales in the United States.

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[1] Puerto Rico Planning Board, Multiplicadores de Empleo, Tipo I Y II, Puerto Rico 1981-82 San Juan: 1990. (For sector 20820 Alcoholics Beverages and Malt.)

RUM CONSUMPTION IN THE UNITED STATES[2]

	1987	1988	1989
Sales (9 liter cases, in thousands)	13,451	13,335	13,138
Sales in proof gallons[3] (1.9 PG/case)	25,557	25,337	24,962
Proof gallons imported from P.R	21,824	20,951	20,193
Puerto Rican rum share of market	85.4%	82.7%	80.9%

In a period in which total rum sales are declining, Puerto Rico's share of that increasingly smaller market is also declining. In addition, other pressures are threatening continued volume shrinkage, including an increase in the Federal excise tax on distilled spirits, negotiations on General Agreement on Tariffs for proposed reduction on import duties, and the proposed Andean Trade Preference Act which would allow duty-free imports of rum from Bolivia, Colombia, Ecuador, and Peru.

III. MEXICO'S LIQUOR INDUSTRY

The Economic Development Administration ("Fomento") has attempted to obtain information regarding the size and capacity of the Mexican liquor industry. Unfortunately, the Mexican trade representatives in the U.S. have not provided any information. The International Trade Commission ("ITC") is working on a report on the Mexican rum industry which is expected to be available shortly. The only published statistics available on the industry date back to 1981 when Mexico reported that its annual production of distilled spirits amounted to 136,160,000 liters.[4]

While this information is outdated and certainly understates the present capacity of Mexico's distilleries, it does provide a sense of the size of the Mexican liquor industry. The 1981 annual production figure, converted into gallons, is equivalent to 36,000,000 wine gallons. Therefore, assuming an average distilled spirits production of 190 proof gallons per wine gallon distilled, Mexico's 1981 production capacity was 68,400,000 proof gallons per year.[5] In contrast, the 1990 production capacity of Puerto Rico distilleries is estimated at 21,000,000 proof gallons per year[6]. Consequently, even in 1981 figures the Mexican production capacity was almost four times Puerto Rico's current capacity. The huge Mexican advantage in production capacity would likely be much greater if actual 1990 production figures were available.

Furthermore, the Mexican liquor industry is more broad based than the Puerto Rican industry. While liquor production in Puerto Rico is limited only to rum, the liquor industry in Mexico includes the production of rum, brandy, and tequila. Although actual production statistics by category are not available, the

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[2] Jobson's Liquor Handbook, 1990 Edition, pp. 105-109.

[3] A proof gallon is a standard wine gallon multiplied by its alcoholic proof.

[4] Un Industrial Stats. Yearbook, 1987, vol. II.

[5] Assuming an average of 1.9 proof gallons per case, the 1981 production capacity of Mexico is equivalent to 36,000,000 cases per year.

[6] Assuming an average of 1.9 proof gallons per case, the 1990 production capacity of Puerto Rico is equivalent to 11,000,000 cases per year.

table below indicates what industry sources approximate as Mexico's annual production:[7]

Brandy	10,000,000 cases
Rum[8]	7,000,000 cases
Tequila[9]	3,000,000 cases

The table below presents the U.S. market for these products (in thousands):

	Rum	Brandy	Tequila
Total market[10]	13,138	7,387	4,048
Volume change vs. prior year	(1.5%)	(1.0%)	3.5%
Produced in:			
Puerto Rico	81%	--	--
United States	--	60%	--
Mexico	--	4%	100%
Others[11]	19%	36%	--

While rum and brandy suffered volume declines in 1989, tequila, which by legal definition can only be produced in Mexico, experienced "the greatest consumption increase in the distilled spirits business."[12] Thus, Mexico is protected by law in being the exclusive producer of tequila, and now because of the proposed duty-free treatment of spirits, it would also be in a position to overwhelm the U.S. market with inexpensive rum[13] and brandy by using its vast production capability. In fact, this advantage would be magnified when consideration is given to the other competitive advantages which Mexico enjoys, as discussed below. Furthermore, duty free treatment of tequila will provide Mexico with additional profits, allowing its industry to better compete in the U.S. liquor market. This, in turn, provides additional pressure on the already shrinking U.S. liquor market, particularly for U.S. and Puerto Rico produced spirits.

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[7] Refers to production for local consumption only.

[8] Of this volume, Bacardi Rum produced in Mexico accounts for nearly 90% of total.

[9] Represents tax paid production of tequila. Bootleg production is suspected to be much higher.

[10] Volume in 9 liter cases. Source: Jobson's Liquor Handbook, 1990 Edition.

[11] Included in "Others" is the production of the U.S. Virgin Islands which accounts for almost 10 percent of the total rum market.

[12] Jobson's Liquor Handbook, 1990 Edition, pp. 114-117.

[13] Bacardi, which accounts for almost 80 percent of all rum from Puerto Rico sold in the United States, is also the largest rum manufacturer in Mexico.

IV. MEXICO'S COMPETITIVE ADVANTAGE OVER PUERTO RICO

In addition to superior production capacity, the spirits industry of Mexico enjoys several advantages primarily due to the inapplicability of a number of U.S. statutory requirements.

A. Transportation Costs

Mexico's favorable geographic location affords its products direct land access to key consumer markets in the southern and western portions of the United States. In addition, Mexico has easy land or rail access to the remaining U.S. markets. Puerto Rico, however, must first ship its products to the United States, with the remaining transportation to consumer markets being done by land or rail. This disadvantage is amplified by the fact that all shipments to the United States are required by law to be in U.S. bottoms, which are much more expensive than foreign ships. Puerto Rico rum producers estimate that ocean transportation adds, depending on the port of entry, between $1.00 and $1.25 per case of spirits.

B. Environmental Compliance

The cost of complying with U.S. environmental laws is so great that in 1985 the second largest rum producer in Puerto Rico chose to discontinue operations rather than make the considerable investment in waste treatment facilities which was required. The closing of this distiller and bottler resulted in the loss of over 300 jobs in Puerto Rico.

C. Minimum Wage

The hourly wages in Mexico are considerably below the U.S. federal minimum wage which applies to Puerto Rico, as well as the fifty states. The rum industry has long been established in Puerto Rico and its wages were actually $6.54 per hour in 1988, well above the federal minimum.[14]

D. Mandatory Payroll Taxes

Federal and Puerto Rico laws also add additional labor costs through mandated payroll taxes such as social security, disability, unemployment, etc.

E. Other Statutory Obligations

In addition to the above, distillers doing business in Puerto Rico are also subject to a number of other costly compliance requirements such as OSHA, mandatory overtime wages, vacation and sick leave, equal employment opportunities, health insurance, etc. Those provisions are not known to be common provisions in the Mexican industry.

F. Available Natural Resources

In addition to the above list of statutory cost advantages, the liquor industry in Mexico has a significant advantage over rum producers in Puerto Rico in terms of their source of raw materials. The rum industry in Puerto Rico must import well over 90 percent of the molasses and 100 percent of petroleum needed to produce rum.

The sugar industry in Puerto Rico is no longer viable given the cost of labor and other aspects of the local market. Thus, molasses are imported from several countries including

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[14] Puerto Rico Dept. of Labor and Human Resources, Census of Manufacturing Industries, 1988, SIC 2085: "Distilled liquor, except brandy."

Mexico. Puerto Rico rum producers estimate that the import cost of a gallon of molasses adds an additional 33 to 50 percent to the cost of a gallon of molasses.

Puerto Rico has no petroleum production at all. Thus, the cost of petroleum is much higher in Puerto Rico. This is true not only because it is imported, but because it must be of low sulphur content, as required by environmental laws.

Thus, any liberalization of import duties on Mexican rum, coupled with Mexico's already considerable competitive advantages, would likely result in a serious decrease in sales of Puerto Rico rum in the United States. The ultimate effects would be the loss of revenues to the Treasury of Puerto Rico and the loss of jobs for U.S. citizens in Puerto Rico.

V. CONCLUSION

The proposed U.S.-Mexico free trade agreement would, if approved, provide a tremendous advantage to the Mexican liquor industry. Such benefits would be extended without consideration for the negative economic impact of the proposed agreement on the less developed economy of Puerto Rico. Such an agreement would result in irreparable harm to the rum industry of Puerto Rico and to U.S. citizens residing in Puerto Rico.

STATEMENT OF
RANK VIDEO SERVICES AMERICA, INC.
IN SUPPORT OF THE INCLUSION OF
SECTION 442 OF THE
CUSTOMS AND TRADE ACT OF 1990
IN THE
PROPOSED U.S.-MEXICO FREE TRADE AGREEMENT

Rank Video Services America, Inc. ("Rank") has over the past few years advocated a permanent suspension on the duties imposed on certain magnetic videotape recordings; namely, those utilized with in-home VCR's. For the reasons explained in further detail below, these types of video cassettes have been subject to inequitable and anomalous treatment in the tariff schedules, solely due to the unprecedented and unanticipated increase in the home VCR market and the concommittant surge in demand for home-use video cassettes. Recognizing the need for an immediate response to this aberration in the tariff schedules, Congress enacted section 442 of the Customs and Trade Act of 1990, which provided for duty-free treatment of these video cassettes through 1992. The time has now come for a permanent resolution of this irregularity in the tariff schedules and the proposed U.S.-Mexico Free Trade Agreement is the ideal vehicle for the undertaking.

Section 442 of the Customs and Trade Act of 1990 suspended the Column one rate of duty on magnetic videotape recordings of a width exceeding 6.5 millimeters, but not exceeding 16 millimeters, in cassettes of U.S. origin, valued at not over $7.00 per cassette, through 1992. (The temporary duty suspension is referenced in the Harmonized Tariff Schedule at Subheading 9402.85.24 and the otherwise applicable duty on the cassettes is currently referenced in the Harmonized Tariff Schedule ("HTS") at Subheading 8524.23.10). There was no opposition to the Section 442 duty suspension from any domestic producer. Further, there was no opposition from the Administration.

Section 442 corrected an anomaly in the tariff schedules, thereby preventing the imposition of a duty of approximately 39 percent on imports of pre-recorded magnetic video cassettes, and enabling U.S. producers to supplement their existing domestic capacity to meet current demand for these video cassettes. Furthermore, the passage of this provision rectified certain decisions by the Customs Service that were contrary to existing case law and contrary to prior administrative rulings which had the effect of denying duty-free GSP treatment to these video cassettes.

Background

1. Business Operations

Rank is a Delaware Corporation that is the successor-in-interest to Bell & Howell/Columbia Pictures Video Services (BHCP), a partnership in which Bell & Howell Company and subsidiaries of The Coca-Cola Company and Gulf + Western Inc. were partners. Rank is a contract duplicator: it obtains master video tapes of programs from program owners, duplicates the programs onto individual video cassettes, packages the cassettes, and sells the cassettes to the program owners. The programs include entertainment, theatrical, self-help, training and industrial programs. Rank currently operates two plants in the United States (Northbrook, Illinois and Garden Grove). Rank also operates a duplicating facility in Mexico through its 50-percent owned subsidiary, Duplivideo, S.A. de C.V., which is located in Mexicali.

Rank's business incorporates three distinct industrial operations: the manufacture of plastic cassette shells; the production of blank cassettes; and the programming of these cassettes. Rank manufactures the bulk of the plastic shells it uses at its plant in Northbrook, Illinois; the rest are purchased from outside suppliers. When the shell manufacturing process is completed, the shells are shipped to the various other plants, including the one in Mexico, for production into pre-recorded video cassettes. The shells used in the Mexican facility are either manufactured by Rank or purchased from U.S. suppliers.

2. Tariff Treatment

Pre-recorded video cassettes, that is, "magnetic video tape on which pictures or pictures and sound have been recorded," had been classified under TSUS item 724.12, dutiable at 0.2¢ per linear ft. under Column 1 for countries benefiting from Most-Favored-Nation (MFN) treatment; at 1¢ per lin. ft. under Column 2 for imports from non-MFN countries; and also at 0.2¢ per lin. ft. for imports from Less Developed Developing Countries that received the benefits of accelerated staged duty reductions under the Tokyo Round of Trade Agreements. The 1988 Column 1 duty-rate of 0.2¢ per lin. ft. was staged down from 0.4¢ per lin. ft. in 1979. Under the Harmonized Tariff Schedule, which went into effect in 1989, the duty would remain the same (HTS 8524.23.10, which imposes a duty of .66¢ per linear meter). Video cassettes are eligible for duty-free treatment under GSP, the U.S.-Israel Free Trade Agreement, and the Caribbean Basin Initiative. Mexico is a designated "Beneficiary Developing Country" (BDC), imports from which may qualify for GSP treatment. Both motion-picture film (pre-recorded) and newsreels are duty-free.

Under the Nairobi Protocol to the Florence Agreement (Agreement on the Importation of Educational, Scientific and Cultural Materials, 17 UST 1835; TIAS 6129; 131 UNTS 25), as implemented by Pub. L. 89-651 and Pres. Proc. 5021 of February 14, 1983, blank and pre-recorded video cassettes were afforded duty-free entry into the United States from February 14, 1983, through August 11, 1985. After August 12, 1985, imports from MFN countries have been subject to the regular Column 1 duty rate, unless otherwise eligible for duty-free treatment under other authority. Although Pub. Law 100-418, the Trade Bill signed by President Reagan on August 23, 1988, provided for the extension of the Nairobi Protocol, that legislation in general excluded pre-recorded video cassettes from duty-free treatment if imported for commercial use.

As indicated above, generally imports of pre-recorded video cassettes are eligible for duty-free entry from Mexico under the GSP. Nonetheless, the U.S. Customs Service in 1987 took an unprecedented position in two rulings issued to Rank (dated May 20, 1986, and reaffirmed on April 20, 1987) which denied GSP status to certain pre-recorded cassettes manufactured in Mexico from non-Mexican origin cassette shells and bulk magnetic media. According to the Customs rulings, the video cassettes failed to satisfy the 35-percent "value-added" requirement prescribed in section 503(b) of the Trade Act of 1974 because the blank video cassettes, before they were programmed with movies, did not constitute articles produced in Mexico. The Customs Service reasoned that the process of making blank video cassettes from non-Mexican origin cassette shells and bulk magnetic media*/ did not "substantially transform" these materials into new articles produced in Mexico, and thus the cost of the shells and magnetic media cannot be counted toward satisfying the 35-percent requirement.

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*/ Bulk magnetic media must be imported into Mexico because there is no domestic video tape manufacturing industry in Mexico.

Prior to the enactment of Section 442, Rank's Mexicali facility had been operated at a mere 25 percent of capacity because, due to the position taken by the Customs Service, the facility could be utilized only to make cassettes for the U.S. market that qualify for GSP treatment without regard to the cost of component materials.

Section 442 of the Customs and Trade Act of 1990 mitigated the harsh effect of these rulings by affording duty-free treatment for qualified pre-recorded cassettes; however, as indicated, this provision expires December 31, 1992. It should be noted that the Administration gave its approval to the provision in the Customs and Trade Act of 1990 when the then-proposed legislation was amended to require U.S.-origin shells and a valuation of $7.00 in order to narrow the scope of the bill as much as possible. These changes satisfied the Administration's concerns about benefiting countries that are not working with the United States in the Nairobi Protocol negotiations to remove tariff and other barriers to U.S. exports of audio-visual materials.

Necessity for Permanent Duty Suspension

As stated previously, the duty on pre-recorded video cassettes was assessed on the basis of the length of tape contained in the cassette rather than on an ad valorem basis. Obviously, the longer the program, the higher the duty, as illustrated in the following chart:

DUTY IMPACT ON PRE-RECORDED VHS CASSETTES

Tape Length	Entered Value	Column 1 Duty	Ad Valorem Equivalent
30 min./(200 ft.)	$2.40	$0.40	17%
45 min./(300 ft.)	$2.45	$0.60	24%
60 min./(400 ft.)	$2.70	$0.80	30%
90 min./(600 ft.)	$3.30	$1.20	36%
120 min./(800 ft.)	$3.80	$1.60	42%

There are two fundamental flaws with the tariff structure for video cassettes. First, the applicable duty is extremely high on an ad valorem equivalent basis, reaching about 42% for a 120-minute video tape, which is approximately the length of a full-length movie. Duties this high are generally reserved for products from unfriendly countries subject to the Column 2 rates rather than friendly nations receiving MFN treatment. Because the video cassette industry anticipates profits of less than 10% on imports, the extraordinary duty would have rendered operations in friendly countries economically impossible if it were not for the enactment of Section 442 of the Customs and Trade Act of 1990.

More important, however, is the unintended and disproportionate effect of the duty on pre-recorded video cassettes imported for home use. As a general rule, imports under HTS Subheading 8524.23.10 consist of two different products, as reflected in the statistical annotations: (1) HTS Subheading 8524.23.10-40 ("Magnetic video tape ... [o]f a width not exceeding 16 mm, in cassettes") covering video cassettes for use in home video cassette recorders (VCRs), which contain 1/2 inch wide tape; and (2) HTS Subheading 8524.23.10-80 ("Other") covering "master" tapes of foreign television programs and foreign movies for broadcast by U.S. television stations or for duplication in the United States,

which are generally one inch wide or larger, and 3/4 inch video cassettes for educational, institutional and industrial use.

Although video tape technology has existed since the early 1960's, only in the last four to five years, as the price of VCRs has declined significantly, has video tape been used in the home by consumers. From the early 1960's to the early 1980's, the great bulk of imports were either "master" tapes or 3/4 inch cassettes. Since then, imports of video cassettes for sale or rental to home users (HTS 8524.23.10-40) have increased as demand has grown, while imports for television broadcast, other commercial or educational display, and duplication have remained fairly constant. The dramatic increase in imports of video cassettes for home use is illustrated below:

IMPORTS OF PRE-RECORDED MAGNETIC VIDEO TAPE

Description	Quantity (units)				
HTS	1983	1984	1985	1986	1987
8524.23.10-40 (cassettes 16 mm and under)	235,044	192,997	655,217	1,028,210	1,642,198

(formerly referenced as TSUSA 724.1220 cassettes 5/8" and under)

Source: USITC data

The tariff rate of .66 cents per linear meter for all imports under HTS Subheading 8524.23.10 represented a glaring anomaly in the Tariff Schedules, since the same tariff burden was imposed on products with vastly different economic values. The value of a "master" tape of a television program ranges between about $10,000 and $1,000,000, depending on the program's popularity, and averages roughly $50,000; the duty on such a "master" tape would be about $12.00, or 0.024 percent ad valorem for the average 2-hour "master" tape. In contrast, a video tape of the same program imported for use in a home VCR is worth less than $5, but would be subject to a duty of $1.60, almost 40 percent ad valorem. If the tariff burden on video cassettes imported for home use were made proportionate to the tariff burden on "master" tapes on an ad valorem basis, the duty on video cassettes for home use would be virtually zero. The only explanation for this differential is that the home usage market for video cassettes has only recently experienced its growth explosion. Thus, there has been little opportunity to address the issue and to take lasting corrective action.

2. Need for Additional Sources of Supply

Rank, in conjunction with its Mexican partners, opened the Mexicali facility in 1985 to develop an additional source of supply for what it correctly perceived to be an expanding market for pre-recorded video cassettes for use in home VCRs. Over $10 million was invested in plant and equipment in Mexicali. The Duplivideo facility was chosen in part because of its proximity to technical trade schools that provide the training essential to the performance of many of the technical operations involved in the production of video cassettes. The plant was also located in Mexicali because the facility could produce both VHS-format cassettes for the U.S. market as well as Beta-format cassettes for the Mexican market.

As is well known, the significantly increased demand in the U.S. market for pre-recorded video cassettes for home display has been accompanied by a shortfall in domestic capacity. Rank does not have the capacity at its three existing U.S. facilities to meet anticipated demand over the next few years. Moreover, Rank cannot turn to other facilities located in the United States because duplicators must utilize their own plants to ensure that quality control standards and production and delivery schedules are met. Therefore, it is essential that Rank be able to operate the Mexicali facility at full capacity. As pointed out above, however, Rank will not be able to utilize the Mexicali facility to meet the demand for full-length movies if the high tariff burden is reinstated. If the duty is reinstated, Rank will have no alternative but to terminate its Mexican operations. The result will be that Rank will be unable to produce enough pre-recorded video cassettes to meet the rising demand for the product.

3. Correction of Inequitable Rulings Denying GSP Treatment

As explained above, the Customs Service in 1987 ruled that certain pre-recorded cassettes imported from Mexico may not be eligible for GSP treatment unless direct processing costs alone meet the 35-percent threshold prescribed in the GSP statute. Rank believes that the rulings are incorrect. The cost of cassette shells and bulk magnetic media imported into Mexico should count toward satisfying the 35-percent requirement because those materials are "substantially transformed" into blank cassettes in Mexico before they are used to make pre-recorded cassettes.*/ The Customs Service's determination that the production of blank cassettes does not constitute a "substantial transformation" runs counter to a long line of judicial authorities and even Customs' own prior administrative rulings. See unpublished ruling dated June 16, 1980, CLA-2:RRUCSC (063646) (bulk recording tape that was cut and wound onto pancakes was substantially transformed for GSP purposes); unpublished ruling dated June 30, 1980, CLA-2:RRUCSC (061909) (tape that was cut and spliced into pre-leadered pancakes and then wound onto cassette hubs was substantially transformed into a new and different article). See also Torrington Co. v. United States, 764 F.2d 1563 (Fed. Cir. 1985) (wire that was processed into needle swages and then into finished needles underwent two substantial transformations for GSP purposes); Belcrest Linens v. United States, 741 F.2d 1368 (Fed. Cir. 1984) (pillowcases made from pre-embroidered bolts of fabric were substantially transformed); Texas Instruments, Inc. v. United States, 681 F.2d 778 (Fed. Cir. 1982) (assembly of integrated circuits and photodiodes constituted substantial transformation for GSP purposes); Diamond Match Co. v. United States, 49 CCPA 52, C.A.D. 796 (1962) (inserting wooden stick into ice cream changes name, character and use of stick, i.e., would qualify as a substantial transformation); Cardinal Glove Co. v. United States, 4 CIT 41 (1982) (sewing together glove panels constitutes substantial transformation); Grafton Spools Ltd. v.

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*/ It is undisputed that programming the blank cassettes with movies constitutes a "substantial transformation." Thus, the manufacture of blank cassettes from shells and magnetic media followed by the programming of the blank cassettes should satisfy the "dual substantial transformation" standard applied in determining GSP eligibility.

United States, 45 Cust. Ct. 16, C.D. 2190 (1960) (winding ribbon onto empty typewriter ribbon spools resulted in change of name, character and use of the spools, i.e., would constitute a substantial transformation).

Conclusion

For the reasons set forth above, Rank respectfully urges that Section 442 of the Customs and Trade Act be included in the proposed U.S.-Mexico Free Trade Agreement. The permanent suspension of this duty will cure the inequitable treatment of such video cassettes under the current tariff system and render moot the unjustified result produced by the Customs Service rulings on the GSP treatment of video cassettes.

STATEMENT OF JACK NELSON, PRESIDENT
RIO GRANDE VALLEY SUGAR GROWERS

Mr. Chairman and members of the committee, thank you for the opportunity to submit this statement representing views of farmers who supply sugarcane to our mill and our valuable employees.

We operate a farmer-owned cooperative sugar mill which, in a good year, produces approximately 100,000 tons of raw sugar, provides employment and, as President Bush is fond of saying, a "point of light" for 1,300 people in the Rio Grande Valley. Enclosed is an article which reports the results of a US Department of Commerce study that names our area as the most economically depressed in the US.

Because of our location, growing sugarcane on the banks of the Rio Grande River, we are very aware of the need to help our neighbors to the south. However, I don't think giving Mexico concessions on sugar is a viable way to improve Mexico's economic condition. Mexico currently benefits from a sugar quota (8,030 tons raw value) to the US even though they are a net importer. This means they may ship a portion of their domestic production to the US to fulfill their quota requirements and substitute that amount by purchasing sugar from the "world market" including Cuban sugar. Any increase in the sugar import quota from Mexico could benefit Cuba as well and that, I don't believe, is a purpose of a trade agreement between the United States and Mexico. Mexico also benefits from the US "sugar reexport" program by shipping raw sugar to the US for refining and reexport. They exported a total of 114,818 short tons raw value in 1989 to the US which is 106,788 tons above the 8,030 ton authorized import quota.

We have all heard and repeated the overused term "level playing field". The President even referred to it in his State of the Union address. If the US government is going to open up markets for Mexican-produced products, consideration should be given to making sure they are produced on a "level playing field". For example, things produced with labor paid at 1/16 of US wage rates should not be allowed. Products grown with the use of chemicals and herbicides not legal in the US should be excluded. There should be some moral, health and environmental standards to be adhered to.

In addition, a close watch should be kept on currency manipulation by the Mexican government which could cause unfair trade imbalances.

We are efficient producers of a good, healthy American product and we can complete with producers anywhere in the world on a "level playing field". A recent United States Department of Agriculture Foreign Agriculture Service report on World Food Price Comparisons indicates Americans pay average retail price for sugar when compared to other countries.

We are concerned and want to help our friends in Mexico however I submit that the best way to accomplish this goal is not on the backs of American farmers.

We know this will be a tedious process and we wish you well, but please try to accomplish your goals without taking American jobs.

VALLEY MORNING STAR Harlingen, Texas
Page A10, Saturday, May 5, 1990

Texas cities

By The Associated Press

WASHINGTON — Here is the Commerce Department's list of per capita income in metropolitan areas for 1988 for Texas cities.

The metropolitan areas frequently cover more than one city, and in this list only the name of the first city is given.

The first column shows per capita personal income, in dollars, for 1988. The second column shows where the city ranked.

Per capita personal income is income from all sources received by all individuals in an area, divided by the number of people.

United States	16,490	—
Abilene	14,243	204
Amarillo	14,634	172
Austin	15,342	144
Beaumont	12,086	208
Brazoria	15,642	131
Brownsville	7,868	317
Bryan	11,613	307
CorpChristi	12,048	293
Dallas	18,580	44
El Paso	10,008	314
Ft. Worth	16,516	97
Galveston	15,572	133
Houston	16,192	112
Killeen	12,638	288
Laredo	7,452	318
Longview	13,421	247
Lubbock	13,432	246
McAllen	7,302	319
Midland	16,947	77
Odessa	12,663	282
San Angelo	13,969	225
San Antonio	13,436	244
Sherman	14,347	196
Texarkana	12,967	270
Tyler	15,154	150
Victoria	14,653	170
Waco	13,411	248
WichitaFalls	14,930	161

McAllen-area population poorest, government says

NYC suburbs wealthiest; 4 Texas cities near bottom

By JOHN D. McCLAIN
Associated Press Writer

WASHINGTON — Seven of the nation's 10 richest metropolitan areas are on the East Coast while four of the 10 poorest are in Texas, the Commerce Department said Thursday.

People living in the Bridgeport-Stamford-Norwalk-Danbury area of Connecticut remained at the top of the list with per capita personal income of $29,084, according to a study of 319 metropolitan areas by the department's Bureau of Economic Analysis. That was up from $26,316 in 1987.

The McAllen-Edinburg-Mission area was at the other end of the list with per capita income of just $7,302, the study showed. People in that area ranked last in 1987 at $7,001.

The Brownsville-Harlingen area ranked third from the bottom at $7,868.

For the nation as a whole, per capita income in 1988 was $16,490, up from $15,484 a year earlier. This gain of 6.6 percent outpaced inflation, which rose 4.8 percent as measured by the average value of the Consumer Price Index in 1988 and 1989.

Per capita personal income is the annual total personal income of residents from all sources, divided by the area population. It includes such items as dividends and rents as well as wages and salaries.

Nine of the 10 metropolitan areas with the highest per capita personal income in 1988 also ranked in the 10 highest in 1983, the report said.

Newark, N.J., which ranked twelfth in 1983, rose to ninth in 1988 with per capita personal income of $22,963. Anchorage, Alaska, dropped from first to 17th with per capital income of $21,840.

Following the Connecticut suburbs of New York City were San Francisco, Calif., $26,309; Bergen-Passaic, N.J., $26,388; Middlesex-Somerset-Hunterdon, N.J., $25,140; Lake County, Ill., $24,009; Nassau-Suffolk, N.Y., $23,832; San Jose, Calif., $23,181; Washington, D.C.-Md.-Va., $23,175; Newark, $22,963; and West Palm Beach-Boca Raton-Delray Beach, Fla, $22,824.

Other areas at the bottom of the list were Laredo, $7,452; Las Cruces, N.M., $9,791; Provo-Orem, Utah, $9,993; El Paso, $10,008; Pascagoula, Miss., $10,892; Jacksonville, N.C., $11,262; Houma-Thibodaux, La., $11,264; and Lawton, Okla., $11,420.

Eight of the 10 metropolitan areas with the lowest per capita personal income in 1988 also ranked in the eight lowest in 1983, the report said.

Anniston, Ala., moved up from 311th to 306th with income of $11,679, and the Clarksville-Hopkinsville, Tenn.-Ky., area went from 312th to 306th with income of $11,796.

The 10 richest metropolitan areas in terms of total personal income, regardless of the number of residents, were New York, $174.24 billion; Los Angeles-Long Beach, Calif., $161.37 billion; Chicago, $118.48 billion; Philadelphia, Pa.-N.J., $91.05 billion; Washington, D.C.-Md.-Va., $86.64 billion; Boston-Lawrence-Salem-Lowell-Brockton, Mass., $83.11 billion; Detroit, $80.76 billion; Nassau-Suffolk, N.Y., $63.16 billion; Houston, $52.58 billion, and Anaheim-Santa Ana, Calif., $51.36 billion.

Nine of the 10 metropolitan areas with the fastest growth in total personal income from 1983 to 1988 also were on the East Coast, five of them in Florida, the report said.

Naples, Fla., led this list with total personal income of $2.99 billion, up 87 percent during the five years compared with the national average growth of 43 percent.

It was followed by Fort Myers-Cape Coral, Fla., with $5.22 billion, up 75 percent; Portsmouth-Dover-Rochester, N.H., $6.45 billion, up 74.4 percent; Riverside-San Bernardino, Calif., $36.66 billion, up 71.7 percent; West Palm Beach-Boca Raton-Delray Beach, $18.68 billion, up 70.8 percent; Orlando, Fla, $16.06 billion, up 69.5 percent; Ocala, Fla, $2.28 billion, up 69.4 percent; Manchester-Nashua, N.H., $6.98 billion, up 69.3 billion; Atlanta, $50.35 billion, up 68.7 percent, and Raleigh-Durham, N.C., $12.08 billion, up 68.3 percent.

StarKist Seafood Company

An Affiliate of H.J. Heinz Company

Heinz

180 East Ocean Boulevard
Long Beach, California 90802-4797
Telephone: 213 590-9900

William P. Woods, Jr.
Vice President
Procurement and Government Relations

February 25, 1991

Mr. Robert J. Leonard
Chief Counsel
Committee on Ways and Means
U.S. House of Representatives
Room 1102
Longworth House Office Building
Washington, D.C. 20515

By Facsimile (202) 225-2610

Dear sir:

StarKist Seafood Company is the largest canner and distributor of tuna in the U.S. and has the largest canning facilities in Mayaguez, Puerto Rico and Pago Pago, Samoa. As the Committee on Ways of Means considers the potential impacts of the proposed Free Trade Agreement with Mexico, I ask that you be acutely aware of the potential negative impact on employment in both Puerto Rico and American Samoa that could result from Mexico receiving a preferential duty status on canned tuna.

The structure of the tuna industry was recently reviewed by the U.S. International Trade Commission in their publication 2339 of December, 1990 "Tuna: Competitive Conditions Affecting the U.S. and European Tuna Industries in Domestic and Foreign Markets." As indicated in this material the local communities in both Mayaguez and Pago Pago are very dependent on the tuna industry for sources of employment. It is clear to us that any reduction in the 35% duty on oil pack tuna or 6.0 to 12.5% duty on water pack tuna would risk significant employment reductions in both of our locations.

The U.S. Tuna Canning Industry has undergone significant increases in competition activity over the past several years and has experienced reductions in employment in both California and, most recently, in Puerto Rico. These are clear indicators that U.S. employment is at risk under the present structure; any significant change favoring Mexican canners would accelerate the erosion of domestic employment.

I would like to recommend to the Committee that before including the tariffs on tuna products in the proposed free trade agreement with Mexico that consideration be given to the impact on reduction employment.

Sincerely yours,

W. P. Woods, Jr.

W.P. WOODS, JR.

WPW:bmm

cc: K.A. Hauge
R.W. Hetzler
M.E. Stockwell
R.A. Ward
T. Smyth
B. Cable
T. Hennebury

DAVID J. STEINBERG

7216 Stafford Road
Alexandria, Virginia 22307
(703) 765-2472

Statement prepared for Congressional hearings on proposed negotiation of a free-trade agreement with Mexico. February 1991

This statement is submitted in my personal capacity, not at the behest or on behalf of any person, organization or other entity interested in the subject of this hearing. My more than 40 years of professional concern with trade-policy issues includes most of my 11 years of U.S. government service, 13 years as chief economist (ultimately also executive director) of the Committee for a National Trade Policy, Inc., and 15 years as president of the U.S. Council for an Open World Economy, Inc.

A longtime exponent of progressively freer and fairer international trade, I began outspoken advocacy of a definitive free-trade strategy in the mid-1960s -- to the consternation of nearly all the self-styled "free traders" aware of the idealistic vision I persisted in articulating. The United States has never propounded a trade-policy objective so precise, so far-reaching. The free-trade initiative I had in mind, and still have in mind, would be multilateral -- projecting the reciprocal programming of totally free and fair trade, in accordance with a realistic timetable, with as many developed countries as are interested in such a venture. Sooner or later, all would find it prudent to participate. There would be no exceptions for any products or practices, although different timetables could be drawn to accommodate differing problems of adjustment. The market access the participating countries provide one another should also be provided to developing countries without requiring equivalent reciprocity until the latter countries are capable of such commitments -- but requiring general obligations to reduce trade-and-other barriers as rapidly as the economic development of these countries permits.

A bilateral free-trade pact (with one country), or pluralateral (with a few countries), would be consistent with this strategy to the extent that only one country or a few countries (beyond Israel and Canada, already party to so-called free-trade pacts with the United States) respond favorably to the U.S. invitation.

Applying these standards, I did not support the "free trade" agreements with Israel and later Canada. Recognizing, however, the special circumstances of the initiatives taken by these two countries led me to withhold outright opposition. It could be argued that Mexico, so close to us geographically and so important a trading partner, is another special situation deserving comparable attention. I believe, however, that the time has come -- it came many years ago but the need grows with passing years -- for the United States to raise its sights to a multilateral framework for negotiation of a free-trade compact worthy of the name. This means looking beyond not only a free-trade pact with Mexico but also a North American free-trade agreement (jointly with Mexico and Canada), free-trade agreements with individual South American, Central American and Caribbean countries or groups thereof, and even the projected "free-trade zone" from Point Barrow to the Strait of Magellan (the whole Western Hemisphere, as envisaged by President Bush's Enterprise of the Americas Initiative). The kind of trade strategy I propose surely deserves priority attention in the recently announced U.S. aim for a "new world order."

Although committed to continued development of a multilateral freer and fairer international trading system, the United States appears to be drifting toward division of the world into trading blocs. Regional compacts already exist in some areas, the European Economic Community being the largest and best known. Exponents of U.S. negotiation of its own free-trade arrangements with selected countries see such blocs as building blocks toward a freer multilateral trading system. In the long run, this could eventually result. In the interim, however, the various trading blocs could become new foci of protectionism, involving economic and other costs too high to be acceptable. We should move resolutely to divert the European Community and other regional arrangements from such tendencies. Announcement of a definitive, multilateral free-trade strategy, getting it factored into policy decisions in Western Europe and elsewhere, would stimulate progressively freer and fairer international economic relations in the short run, leading ultimately (much sooner than is currently appreciated) to a multilateral free-and-fair-trade charter.

Factoring this trade-policy premise into the decisions of American business and labor, and of all levels of government in this country, has tremendous potential for a wide range of U.S. policy objectives. Preparing the nation for free trade would require rapid, far-reaching progress toward many domestic reforms today considered urgent for other purposes as well -- from education to productivity to the nation's infrastructure to fiscal solvency and more. Stirring the nation to extraordinary efforts (to being "the best it can be") in critical areas of national performance, the multilateral free-trade strategy would, in a sense, be the moral equivalent of war. Other than a clear and present threat to our national security, nothing less than so dramatic a trade initiative seems capable of accomplishing so much.

A free-trade agreement with Mexico (one really deserving the name) may be politically unacceptable in this country without a U.S. domestic-adjustment strategy to backstop U.S. participation. Such a domestic strategy, in turn, seems unlikely unless stimulated by a free-trade initiative much more dramatic than a bilateral approach to Mexico, or a North American proposal, or even a Western Hemisphere proposition. Moreover, how prudent in foreign-policy terms would it be to seek a free-trade agreement with Mexico and tell Chile or Taiwan or other countries that may be similarly interested to bide their time, suspending until some unspecified date their own readiness for such a pact with the United States? So-called "free trade" discussions are under way in some form with other Latin American countries, but these explorations beyond the discussions with Mexico do not meet the standards to which I attach so much importance.

I suggest that we forge our free-trade ideas in multilateral terms -- across hemispheric lines -- and proceed simultaneously with related economic-development initiatives concerning Mexico, Central America, Third World countries generally, indeed the American economy itself.

STATEMENT OF THE SYNTHETIC ORGANIC CHEMICAL MANUFACTURERS ASSOCIATION

I. INTRODUCTION

The Synthetic Organic Chemical Manufacturers Association (SOCMA), is a nonprofit trade association representing over 200 organic chemical companies, the majority of which have annual organic chemical sales under $50 million. The members of SOCMA produce more than 5,000 synthetic organic chemicals which are primarily intermediates and finished chemicals for industrial use. They include dyes, pigments, flavor and perfume materials, surface active reagents, fire retardants, electronic chemicals, resins, plasticizers, rubber-processing chemicals and medicinals. The products of the organic chemical industry are essential to many other industries, including agriculture, textiles, paper, steel, automobiles, rubber, aerospace, defense and electronics. The United States is a major importer and exporter of organic chemicals and SOCMA members have a vital interest in a U.S.-Mexico free trade agreement. A current list of SOCMA members is attached to this statement.

II OBJECTIVES

Bilateral free trade negotiations between the United States and Mexico must benefit both countries. The key element in the bilateral free trade negotiations between the United States and Mexico should be the elimination of trade distorting practices currently widespread in Mexico, and the concomitant expansion of U.S. chemical export opportunities into an open marketplace.

The chemical industry is one of the few U.S. sectors which continues to show a positive balance of trade on a world-wide basis. The chemical industry in the United States should not be penalized for this hard-earned success by disproportionate or inappropriate trade/tariff concessions. Indeed a U.S.-Mexico free trade and investment agreement must include all industrial sectors and should not be restricted only to the chemicals and allied products sector, part of that sector, or to a limited number of sectors, including chemicals and allied products.

Mexico must grant U.S. exporters fair access to markets without unreasonable barriers or conditions, in exchange for Mexico's retaining free access to U.S. markets. The basic trade laws of the two countries should be maintained.

The objectives of the negotiations must include not only the elimination of preferential Mexican chemical feedstock and energy policies and foreign investment restrictions, and improvement of the protection of intellectual property rights, but also the elimination of trade distortions caused by Mexican government ownership of natural resource raw material and chemical production facilities.

III. GENERAL PRINCIPLES GOVERNING THE NEGOTIATIONS

Transparency

The negotiations should be conducted in a transparent manner. The U.S. chemical and allied products industry must be an active partner in determining the negotiation agenda for issues which affect its interests. The U.S. government must discuss proposals for an agreement with the chemical industry, and provide adequate and timely opportunities for industry advice and review, both before U.S. negotiating objectives are established and throughout the negotiations themselves.

SOCMA offers the services and expertise of its International Trade Committee as an information resource to the U.S. Government and Congress for advice and review in matters affecting the United States chemical industry.

Implementation

Implementation of any U.S. tariff reductions or other U.S. concessions must be contingent upon, and not granted before, Mexico's implementation of agreements reached during the negotiations.

After a transition period, Mexico should no longer be eligible for the benefits of the Generalized System of Preferences (GSP).

Dispute Settlement

Any agreement must contain an adequate and binding mechanism with time certain provisions to settle disputes on the implementation, terms and conditions of the agreement.

Compliance

Any agreement must specify deadlines for the fulfillment of its conditions. It should provide for automatic offsetting compensation to the extent of any delay if either Party does not meet its obligations on the agreed-upon schedule.

The agreement also should provide for the automatic reimposition of duties at MFN applied rates in the event of non-fulfillment of its conditions. In such case, or if the agreement is terminated by Mexico, the United States should not return the benefits of GSP to Mexico.

Standstill

Any agreement to negotiate a U.S./Mexico bilateral trade and investment agreement must incorporate standstill provisions committing each

Party not to take any trade restrictive or distorting measures inconsistent with its obligations under the General Agreement on Tariffs and Trade (GATT), and not to take any trade measures of a nature or in such a manner as to improve its negotiating position.

Rollback

Any agreement to negotiate a U.S.-Mexico bilateral trade and investment agreement must incorporate rollback provisions committing each Party to phase out or bring into conformity, within an agreed time frame not later than the formal completion of the negotiations, all trade restrictive or distorting measures inconsistent with its obligations under GATT, the April 23, 1985 Understanding between the United States and Mexico regarding subsidies and countervailing duties, as extended, and the November 1987 Framework Agreement between the United States and Mexico, without requesting any concessions in exchange for elimination of these measures.

Existing laws, rules, regulations and decrees that are in conflict with the provisions of the U.S./Mexico bilateral trade and investment agreement should not be grandfathered.

IV. CONSISTENCY WITH THE U.S.-CANADA FTA

Inasmuch as a U.S.-Canada FTA is already effective, care must be taken in negotiations with Mexico that all provisions in any U.S.-Mexico FTA be consistent with those principles already agreed to by the U.S. and Canada. This requirement for consistency is in expectation of negotiations towards a North American Free Trade Agreement. SOCMA would not support any retreat from the principles of the U.S.-Canada FTA.

SOCMA 1991 MEMBERS

ACTIVE

Aceto Industrial Chemical Corporation
AFF Inc.
Ajinomoto USA Inc.
Akzo Chemicals Incorporated
Albright & Wilson Americas Incorporated
Allied Colloids Incorporated
American Cyanamid Company
American Tokyo Kasei, Incorporated
Amoco Chemicals Company
Anderson Development Company
Atochem North America
BASF Corporation Chemicals Division
Baker Performance Chemicals Incorporated
Berncolors-Poughkeepsie, Incorporated
Blackman Uhler Chemical Company
Blue Grass Chemical Specialties
Boehme Filatex, Incorporated
Borden, Inc.
Boulder Scientific Company
Buffalo Color Corporation
Callery Chemical Company
Carbolabs, Inc.
Cardolite Corporation
Carey Industries, Incorporated
Caschem, Inc.
Cedar Chemical Corporation
Celgene Corporation
Chanem Chemicals
Chatterton Petrochemical Corporation
ChemDesign Corporation
Chemical Exchange Industries, Inc.
Chemical Resource Processing, Inc.
Chemicals Incorporated
Chemsyn Science Labs
Chemtan Company, Inc.
Chevron Chemical Company
CL Industries
Confederated Specialty Associates
Cookson Pigments
Ciba-Geigy Dyestuffs & Chemicals Division
D & O Chemicals, Inc.
Daicolor-Pope, Inc.
Day-Glo Color Corporation
Deepwater, Inc.
Degussa Corporation
Diaz Chemical Co., Inc.
Dixie Chemical Co., Inc.
Dock Resins Corporation
Dow Chemical U.S.A.
E.I. du Pont de Nemours & Company, Inc.
Dye Specialties Inc.
East Shore Chemical Company
Eastman Fine Chemicals
EM Industries, Inc.
Ethox Chemicals Inc.
Evans Chemetics
Exxon Chemical Company
FMC Corporation
Fairfield Chemical Company
Fairmount Chemical Co., Inc.
Far Research, Inc.
Fleming Laboratories, Inc.
GAF Chemicals Corporation
GE Specialty Chemicals, Inc.
Genzyme Corporation
Girindus Corporation
Grant Chemical Division/Ferro
Haltermann LTD.
Hampford Research, Inc.
Henkel Corporation
Hexcel Corporation
Hickson DanChem Corporation
High Point Chemical Corporation
Hilton-Davis Co.
Hoechst Celanese Corporation
Howell Chemical Systems
Huls America Inc.
The Humphrey Chemical Company
ICI Americas Incorporated
Inolex Chemical Company
Jarchem Industries, Inc.
Johnson Matthey
KMCO, Inc.
King's Laboratory Inc.
Koch Chemical Company
Lobeco Products
Loctite Corporation
Lomac, Inc.
Lonza Inc.
Mallinckrodt, Inc.
Merichem Company
Milliken and Company
Mobay Corporation
Monsanto Company
Monsco Research Products, Inc.

Active continued

Morflex, Inc.
Morre-Tec Industries, Inc.
Morton International, Inc.
MTM (Americas) Inc.
Napp Chemicals, Inc.
National Starch & Chemical Corporation
Noramco Hydrocarbons
Nova Molecular Technologies, Inc.
Occidental Chemical Corporation
Olin Corporation
Orient Chemical Corporation
Orsec, Inc.
PCR, Inc.
Pfizer Chemical Inc.
Pharmco Laboratories, Inc.
Pilot Industries of Texas
Pressure Chemical Co.
Prochem Chemicals Inc.
Products Research & Chemical Corporation
Quality Chemicals Inc.
R-M Industries, Inc.
R.S.A. Corporation
Raschig Corporation
Reilly Industries, Inc.
Rhone-Poulenc Inc.
Ruetgers-Nease Chemical Company, Inc.
Salsbury Laboratories, Inc.
Sandoz Chemicals Corporation
Sea Lion Chemical
Sequa Chemicals, Inc.
Shipley Company
Sofix Corporation
Soluol Chemical Co., Inc.
Southwestern Analytical Chemicals, Inc.
Standard Chlorine of Delaware, Inc.
Sterling Chemicals, Inc.
Strem Chemicals, Inc.
Sun Chemical Corporation
Sybron Chemicals Inc.
Syntex Chemicals, Inc.
Synthetech, Inc.
3M, Specialty Chemicals Division
Union Carbide Corporation
The Upjohn Company
Van De Mark Chem Co., Inc.
Wyckoff Chemical Company Inc.

ASSOCIATE

Advanced Polymer, Inc.
Austin Chemical Company Inc.
Biddle Sawyer Corporation
Calsak Corporation
C.I. Specialty Chemicals Inc.
Carter-Wallace, Inc.
Charkit Chemical Corporation
Chemie Linz U.S. Inc.
Chemisphere Corporation
Chugai Boyeki (America) Corporation
Comerals, Inc.
Conzinc Asia Ltd.
Daicel (U.S.A.), Inc.
Davos Chemical Corporation
DSM Chemicals New Jersey
Enimont
Esprit Chemical Corporation
Everfair International, Inc.
Fanwood Chemical, Inc.
Hodogaya Chemical (USA) Inc.
Interchem Corporation
International Bio-Synthetics
K-I Chemical U.S.A. Inc.
Kali-Chemie Corporation
Keystone Aniline Corporation
Mitsubishi International Corporation
Mitsubishi Yuka America
Mitsui & Company (U.S.A.), Inc. Chem Dept.
Moore & Munger, Inc.
Nobel Chemicals, Inc.
Orion Corporation Farmos
Orlex Chemicals Corporation
Phibrochem
Pylam Products Company, Inc.
Richman Chemical Inc.
SKW Chemicals
S.S.T. Corporation
Sipsy Chemical Corporation
Sithean Corporation
Sumitomo Corporation of America
Summit Specialty Chemicals Corporation
Tanabe USA, Inc.
Toray Marketing & Sales (America) Inc
Tosoh USA Inc.
Triple Crown America, Inc.

AFFILIATE

The ADVENT Group
Atlanta Chemical Co., Inc.
BCM Engineers Inc.
Blasland, Bouck & Lee
Calgon Carbon Corporation
Creative Business Strategies, Inc.
Eckenfelder Inc.
ENSR Consulting and Engineering
Environmental Resources Management, Inc.
Environmental Science & Engineering
Foster Wheeler Enviresponse, Inc.
Fluor Daniel
Herzog-Hart Corporation
In-Process Technology
Kline & Company, Inc.
Pilko & Associates, Inc.
Radian Corporation
Ricerca, Inc.
Scientific Design Company Inc.
SMC Martin Inc.
TAMS Consultants, Inc.
TRC Companies Inc.
United Enviro Sytems, Inc.
Universal Process Equipment
Versar Corporation
Roy F. Weston, Inc.
Woodward-Clyde Consultants

SPONSOR

Chemapol (U.K.) Ltd.
Hokko Chemical Industry Co., Ltd.
ISOCHEM S.A.
Konica Corporation
Roland Products "Odx" Group
Yamakawa Chemical Industry Co., Ltd.

Before the
SUBCOMMITTEE ON TRADE
COMMITTEE ON WAYS AND MEANS
UNITED STATES HOUSE OF REPRESENTATIVES
February 20, 1991

PREPARED TESTIMONY OF ROBERT J. KLEINHANS
EXECUTIVE DIRECTOR, TILE COUNCIL OF AMERICA,
ON BEHALF OF UNITED STATES MANUFACTURERS
OF CERAMIC TILE

My name is Robert J. Kleinhans. I am the Executive Director of Tile Council of America, Inc., of Princeton, New Jersey, which is the trade association of American ceramic tile manufacturers. Tile Council's twenty-two regular members produce some 70% of the ceramic tile made in America today. Our associate members are suppliers of equipment and raw materials to the industry.

I am very pleased to take this opportunity to comment on President Bush's proposal to begin bilateral free trade negotiations with Mexico. While our industry certainly does not oppose free trade negotiations, we are concerned that such negotiations must cover a range of important issues beyond mere bilateral tariff cuts. While Mexico has made some progress in recent years, there are still very substantial structural problems in the Mexican economy and industry which, we believe, must be eliminated or effectively neutralized before the United States agrees to reduce its tariffs on imports from Mexico. I will address each of these in my testimony today.

I. SUMMARY

The American ceramic tile industry is not inherently opposed to free trade negotiations with Mexico under Congressional "fast track" procedures. But any agreement with Mexico must eliminate, or effectively neutralize, at least the following types of trade-distorting activities:

-- Subsidized loans and grants. These have been already found illegal under existing U.S. countervailing duty law.

-- Natural resource subsidies in the form of preferentially-priced fuel and electricity.

-- Subsidized transportation for exports, most commonly by truck, within Mexico.

-- Inadequate protection of worker rights, including the right to organize and to earn a living wage.

-- Inadequate protection of worker health and safety.

-- Inadequate environmental protection, including the widespread release of untreated toxic waste.

In addition, any agreement should contain a rule of origin similar to that in the present U.S.-Canada free trade agreement, requiring that any product eligible for preferential tariff treatment must have been fabricated entirely in the country of origin.

II. THE AMERICAN CERAMIC TILE MANUFACTURING INDUSTRY

The American ceramic tile industry consists of about fifty manufacturers, plus a large number of small "handicraft" tile makers, located throughout the United States. (Exhibit A) This industry, for decades, has faced a pattern of unfair and trade-distorting practices by foreign governments and manufacturers, and has been expressly recognized as an import-sensitive industry by Congress and successive Administrations. Import penetration -- the ratio of imported ceramic tile to American-made ceramic tile sold in this country -- has risen steadily to about 56%. (Exhibit B) However, despite the fact that imports have captured more than one-half of the market, the American ceramic tile manufacturing industry remains viable and competitive, and has made very substantial investments in state-of-the-art technology and manufacturing facilities. This industry is certainly capable of competing with any foreign manufacturer on a level playing field.

III. U.S.-MEXICO TRADE IN CERAMIC TILE

Historically, Mexico has been a major source of U.S. ceramic tile imports, and also has been a major export market. However, from 1980 until it became a GATT signatory, Mexico imposed an embargo on all ceramic tile imports from the United States. While that embargo has, at least officially, now been lifted, U.S. exports of ceramic tile to Mexico remain at depressed levels. The Mexican ceramic tile industry also is heavily subsidized by the Government of Mexico. As a result, not only do imports from Mexico receive "bounties or grants" in violation of U.S. countervailing duty law, but also Mexican ceramic tile manufacturers have been induced to construct substantial excess manufacturing capacity, far in excess of Mexican domestic demand. As a result, there is a very substantial bilateral trade deficit in ceramic tile.

U.S. imports of ceramic tile from Mexico are increasing at a rapid rate, even without a free trade agreement. In the five years from 1986 through 1990, annual U.S. imports of ceramic tile from Mexico nearly tripled, from 30.7 million square feet to an estimated 85.1 million square feet. Mexican ceramic tile accounted for 14.4% of all U.S. ceramic tile imports during the first three quarters of 1990, up from 6.3% of U.S. imports in 1986. During 1990, Mexican ceramic tile was imported at a rate more than 20% over 1989 levels. Ceramic tile from Mexico undersells American ceramic tile by a significant margin, even including freight, insurance, and duties; and also undersells ceramic tile imported from most other countries.

In dollar terms, during the first nine months of 1990, U.S. exports of ceramic tile to Mexico were valued at $516,003, while U.S. imports of ceramic tile from Mexico were valued at $40.1 million. This amounts to a ceramic tile bilateral trade deficit with Mexico of some $39.6 million over nine months, or $52.8 million on an annualized basis.

IV. SPECIFIC OBJECTIVES OF A MEXICO FREE TRADE AGREEMENT

We submit that, before U.S. tariffs are reduced, any free trade agreement with Mexico must achieve the following specific objectives.

A. Eliminate Subsidized Loans and Grants

The U.S. Department of Commerce has determined that Mexican ceramic tile manufacturers continue to receive illegal bounties and grants in the form of tax subsidies and illegally

subsidized loans. The countervailing duty order against ceramic tile from Mexico, originally entered in May, 1982, initially found that these subsidies were granted at the rate of 15.84%. Subsequent determinations in administrative review proceedings confirm that these illegal subsidies are still being provided today. Any FTA must provide for the elimination of such subsidies. It is not sufficient just to continue the present countervailing duties. That would allow Mexican ceramic tile makers to continue to receive government subsidies for their domestic market, and would deprive American manufacturers of the opportunity to compete on equal terms in Mexico. The United States should insist that Mexico abolish all trade-distorting subsidies, including "domestic" as well as "export" subsidies, so that the American industry can have full access to the Mexican market.

B. Eliminate Natural Resource Subsidies

The Government of Mexico for years has provided natural gas -- the fuel almost universally used in ceramic tile manufacturing -- fuel oil and electricity to Mexican plants at preferential prices that amount to only a small fraction of the fair market price. Although this government practice has exactly the same economic effect as a cash subsidy, the U.S. Government to this point has not imposed countervailing duties against such "natural resource subsidies," and they continue to provide Mexican ceramic tile manufacturers with an enormous unfair cost advantage. This trade-distorting advantage must be effectively eliminated before U.S. tariffs are reduced. This could, we submit, be accomplished by insisting that the free trade agreement cover trade in energy in all its forms and prohibit all discriminatory energy pricing. This would not require the Government of Mexico to give up "sovereignty" over its energy resources. The Government of Mexico could continue to own the energy resources as long as it was committed to sell them on truly equal terms to all U.S. and Mexican buyers.

C. Eliminate Subsidized Transportation

Ceramic tile from Mexico is most frequently delivered to the United States by truck. There are numerous instances when Mexican exports to the United States, especially including ceramic tile, have been delivered to the U.S. border for a low or nonexistent freight charge. The Mexican transportation and trucking industry must be placed on a competitive market footing as a pre-condition to any FTA. This is particularly important to the U.S. ceramic tile industry, which hopes to expand its exports to Mexico. U.S. manufacturers must be entitled to pay the same shipping price as Mexican manufacturers.

D. Protect Worker Rights, Health and Safety

Working conditions in Mexico are vastly inferior to those in the United States, particularly in the manufacturing industries. While it is to be expected that wages in developing countries are lower than those in the United States, a distinction must be drawn between competitive low wages and wage rates that are depressed because the workers are not allowed to organize or exercise basic rights. Any FTA must guarantee Mexican workers the same basic rights available to U.S. workers. Similarly, workplace safety and health protections must be guaranteed to Mexican workers on the same basis that they are guaranteed to American workers. It is not in the interest of either the United States or Mexico to conclude a free trade agreement that permits the exploitation of Mexican employees.

E. Protect the Environment

Especially in manufacturing industries, environmental protection is often neglected in Mexico. Mexican ceramic tile manufacturers, among others, are guilty of dumping toxic waste into the environment and of generating unacceptable levels of air and water pollution. Any FTA should require adequate environmental protection in Mexico as a pre-condition of U.S. tariff reductions. As in the case of worker rights, health and safety, failing to address these issues in the FTA will create a powerful economic incentive for environmental abuse in Mexico at the expense of American jobs and prosperity.

F. Establish a Proper Rule of Origin

Any FTA with Mexico must include a rule of origin that will ensure that only ceramic tile fabricated in Mexico is eligible for preferential tariff treatment. Tile Council submits that the same rule of origin included in the U.S.-Canada free trade agreement should apply to any U.S.-Mexico free trade agreement. Such a rule would require that, to qualify for national treatment, ceramic tile must be transformed from one 2-digit HTS classification to another. Simplistically, the country of origin is deemed to be the country where the tile body is manufactured. This rule would prevent third-country ceramic tile manufacturers from shipping pre-fabricated tile bodies to Mexico for finishing and packing (which sometimes can result in substantial value added). This kind of two-country manufacturing process already occurs without a tariff incentive. Thus, a fairly strict rule of origin is necessary to prevent abuse of tariff concessions.

V. CONCLUSION

The ceramic tile industry faces some of the more difficult problems involved in U.S.-Mexico free trade negotiations. This is a fairly capital-intensive industry in which Mexican manufacturers historically have undersold their U.S. competitors due to a combination of government subsidies and questionable employment and environmental practices. Also, Mexico has a history of tariff and non-tariff barriers that exclude American tile from the Mexican market. All of these issues must be addressed in order to create a fair and level playing field on which U.S. and Mexican ceramic tile manufacturers could compete fairly. If these problems are fully addressed in the FTA, then Mexico offers a potential market for U.S. ceramic tile exports, and the economic welfare of both countries will improve. However, if any FTA does not address these problems, the result will be a massive transfer of investment and jobs from the United States to Mexico.

Thank you for this opportunity to testify and present the views of the American ceramic tile industry. We would be glad to respond to any questions.

For further information contact:

Robert J. Kleinhans
Tile Council of America, Inc.
P.O. Box 326
Princeton, NJ 08542
(609) 921-7050

EXHIBIT A

PROFILE OF U.S. CERAMIC TILE MANUFACTURING INDUSTRY

Number of Producers	129 1/
Employees	10,000 1/
1989 Shipments	$671,861,000 2/

Principal U.S. Manufacturers

Name	Headquarters	Plants
American Olean Tile Co.	Lansdale, PA	Lansdale, PA Jackson, TN Olean, NY Lewisport, KY Quakertown, PA Fayette, AL
American Marazzi Tile, Inc.	Sunnyvale, TX	Sunnyvale, TX
B & W Tile Co., Inc.	Gardena, CA	Gardena, CA
Claycraft Company (The)	Columbus, OH	Columbus, OH Upper Sandusky, OH
Color Tile Supermart, Inc.	Ft. Worth, TX	Ft. Worth, TX Melbourne, AR Cleveland, MS
Continental Clay Company	Kittanning, PA	Kittanning, PA
Crossville Ceramics	Crossville, TN	Crossville, TN
Dal-Tile Corporation	Dallas, TX	Dallas, TX
Dura Ceramics Inc.	Sun Valley, CA	Sun Valley, CA
El Paso Brick Company	Sunland Park, NM	Sunland Park, NM
Endicott Tile, Ltd.	Fairbury, NE	Fairbury, NE
Epro, Inc.	Westerville, OH	Westerville, OH
Firebird Tiles	Berkeley Hgts, NJ	Berkeley Hgts, NJ
Florida Brick & Clay Co., Inc.	Plant City, FL	Plant City, FL
Florida Tile Div., Premark Int'l, Inc.	Lakeland, FL	Lakeland, FL Lawrenceberg, KY Shannon, GA

1/ Source: USITC, Report to the President on Inv. Nos. TA-503(a)-20 and 332-290, USITC Pub. 2289 (June 1990) at Digest No. 6907.90.00 . 2.

2/ Department of Commerce, Current Industrial Reports Series M32-D (December, 1989)

Name	Headquarters	Plants
GTE Products Corporation	Portsmouth, NH	Portsmouth, NH
Huntington/Pacific Ceramics, Inc.	Fort Worth, TX	Fort Worth, TX
K.P.T. Inc.	Bloomfield, IN	Bloomfield, IN
Kraftile Company	Fremont, CA	Fremont, CA
Laufen International, Inc.	Tulsa, OK	Tulsa, OK
London Tile Co.	New London, OH	New London, OH
Lone Star Ceramics Co.	Dallas, TX	Dallas, TX
Stoneware Tile	Richmond, IN	Richmond, IN
Mannington Ceramic Tile	Lexington, NC	Lexington, NC Mt. Gilead, NC Mt. Vernon, TX
Metropolitan Ceramics Division of Metropolitan Industries, Inc.	Canton, OH	Canton, OH
Monarch Tile Manufacturing	Florence, AL	Florence, AL
Pee Dee Ceramics, Inc.	Marion, SC	Marion, SC
Quarry Tile Company	Spokane, WA	Spokane, WA
Seneca Tiles, Inc.	Attica, OH	Attica, OH
Stonelight Tile Company	San Jose, CA	San Jose, CA
Summitville Tiles, Inc.	Summitville, OH	Summitville, OH Minerva, OH Morganton, NC
Tecnica Ceramics, Inc.	New York, NY	New York, NY
Terra Designs, Inc.	Dover, NJ	Dover, NJ
Texeramics Inc.	Mineral Wells, TX	Mineral Wells, TX
The Tileworks	Des Moines, IA	Des Moines, IA
U.S. Ceramic Tile Co.	East Sparta, OH	East Sparta, OH Houston, MS East Sparta, OH
Universal Quarry Tile	Adairsville, GA	Adairsville, GA
Wenczel Tile Company	Trenton, NJ	Trenton, NJ
Wenczel Tile Company of Florida, Inc.	Tampa, FL	Tampa, FL
Western Quarry Tile, Inc.	Monrovia, CA	Monrovia, CA
Westminster Ceramics Inc.	Bakersfield, CA	Bakersfield, CA
Whitacre-Greer Fireproofing	Waynesburg, OH	Bascom, OH
Winburn Tile Manufacturing Company	Little Rock, AR	Little Rock, AR

Principal Handicraft Tile Makers

The following is just a partial list of American businesses actively involved in the production of handcrafted ceramic tile. This list does not even attempt to include the hundreds, if not thousands, of local artisans and ceramicists who produce handcrafted tile for their local markets. Following this list are some catalogues of handcrafted ceramic tile made in the United States.

COMPANY	LOCATION
Architectural Accents	Basalt, CO
Barbara Beal Studios	Torrance, CA
Clayworks Studio	Austin, TX
Counter Point Tile	Santa Fe, NM
Decoratta Ornamental Tile	Silverdale, PA
De Muth Tile	Napa, CA
Design Tiles	Mifflinburg, PA
Designs in Tiles	Foster City, CA
Epro, Inc.	Westerville, OH
Firebird Tiles	Berkeley Heights, NJ
Fireclay	San Jose, CA
Ron Gooke Studios	Trenton, NJ
Handcraft Tiles	Milpitas, CA
Joe McCarthy Tiles	Greenfield, MA
McIntyre Tile	Healdsburg, CA
The Meredith Collection	Canton, OH
M.E. Tile	Calumet City, IL
Moravian Tile	Doylestown, PA
New England Tile	Volatic, NY
Pewabic Pottery	Detroit, MI
Ron Peake Studios	Holland, IN
Sharon Lane	Santa Rosa, CA
Stone Haus Pottery	Pensacola, FL
Stonelight	San Jose, CA
Summitville Tiles, Inc.	Summitville, OH
Terra Designs, Inc.	Dover, NJ
Timeless Tiles	Shrewsbury, NJ
Totten Harnden Tileworks	Seattle, WA
Westminster Ceramics	Bakersfield, CA

Source: Tile Council telephone interviews, April, 1990.

JANUARY 1991

HISTORICAL ANALYSIS OF ALL TILE
1975 Through Third Quarter 1990

(Measured in Thousands of Square Feet)

Period	Domestic Shipments [1]	U.S. Imports [2]	U.S. Exports	Total Consumption [3]	Import Penetration [4]
1975	256,116	91,752	2,009	345,859	26.5%
1976	277,210	136,072	3,199	410,083	33.2%
1977	264,992	217,898	5,548	477,342	45.6%
1978	301,710	253,897	5,802	549,805	46.2%
1979	312,795	291,577	6,688	597,684	48.8%
1980	297,635	255,412	7,942	545,105	46.9%
1981	287,509	254,658	11,151	531,016	48.0%
1982	295,693	225,780	11,829	509,644	44.3%
1983	334,335	297,498	10,008	621,825	47.8%
1984	337,047	448,405	8,337	777,115	57.7%
1985	369,975	507,429	6,126	871,278	58.2%
1986	440,130	485,877	6,055	919,952	52.8%
1987	462,021	514,162	6,860	969,324	53.0%
1988	488,253	511,312	9,513	990,052	51.6%
1989	510,227	637,075	27,130	1,120,174	56.9%
YEAR-TO-DATE 1990	360,840	442,337	6,921	796,256	55.6%

1/ Due to discrepancies in Commerce Department data, the All Tile domestic shipments for 1975 do not equal the sum of all Mosaic, Glazed and Unglazed Ceramic Tile.
2/ Represents imports of consumption.
3/ Calculated by subtracting exports from the sum of domestic shipments and imports.
4/ Represents imports share of consumption.

SOURCE: U.S. Department of Commerce, Series M 32D, IM 145X, IM 145, EM 546, EM 522 and FT-410.

EXHIBIT B

JANUARY 1991

ANALYSIS OF ALL TILE IMPORTS, BY COUNTRY 1/
1981 Through Third Quarter 1990

(Measured in Thousands of Square Feet)

Country	1981	1982	1983	1984	1985	1986	1987	1988	1989	YEAR TO DATE 1990
Argentina	42	318	753	760	842	2257	5275	7841	8455	5758
Brazil	6617	4401	14252	24526	36505	35807	36141	34790	38427	25039
Canada	762	4620	1242	551	428	1542	2626	4000	2325	1163
Chile	0	0	0	0	99	25	21	613	2600	1380
Colombia	17	78	197	584	1219	2459	2873	4616	4622	3229
France	1733	1300	1425	1820	3579	2145	2346	1195	2880	1996
Israel	23	263	224	165	675	312	129	282	476	959
Italy	100337	93533	130755	210702	240006	228350	243044	243512	305343	195238
Japan	52221	45730	51595	67598	80268	52729	41967	36660	48339	28144
Korea	21467	17638	13683	15092	9112	14654	13583	17030	13153	6172
Mexico	32243	22547	30036	39740	30986	30780	45617	58638	70748	63788
Portugal	267	2077	730	1040	1385	1877	2075	1901	2298	1661
Spain	19664	18186	27697	43453	45221	48898	58420	58336	77608	62968
Sri Lanka	824	364	981	2000	1526	7017	5739	4516	3192	1491
Switzerland	8	28	320	997	1978	1751	961	229	1130	1093
Taiwan	102	385	2835	10246	14658	14826	14572	7711	2534	3159
Thailand	157	143	734	4601	7029	7963	9324	13339	18109	17167
Uruguay	0	0	652	3929	6220	5754	5009	4248	5600	3181
Venezuela	0	0	13	208	1881	7250	3255	3917	8295	9438
West Germany	8131	8534	9837	12260	16506	9774	7348	5040	6671	4328
Other	10046	5635	9538	8133	7307	9705	9466	7374	10480	4985
TOTAL	254661	225780	297499	448405	507429	485875	509791	515787	637075	442337

1/ Represents imports for consumption.

SOURCE: U.S. Department of Commerce, IM 145.

March 1, 1991

Subcommittee on Trade #2
Committee on Ways and Means
U.S. House of Representatives
1120 Longworth House Office Bldg.
Washington, D. C. 20515

Dear Sirs:

Tonka Corporation, headquartered in St. Louis Park, Minnesota, wishes to express its strong support for a U.S./Mexico Free Trade Agreement, and urges U. S. negotiators to request that duty-free status be given to toys immediately upon implementation of the Agreement.

In recent years, Mexico has become an important source of toy production for many U. S. toy companies. Toys produced in Mexico often incorporate U.S. origin raw materials and components, and many U.S. jobs in fields such as transportation, design, marketing, sales, planning, engineering and other management functions depend on our ability to manufacture in Mexico.

A U. S./Mexico Free Trade Agreement would have many benefits for our industry - it would relieve us of the uncertainty inherent in the GSP program, it would allow us a duty savings on products which do not now qualify for GSP, and it would undoubtedly encourage the development of a skilled Mexican vendor base capable of manufacturing our product on a contract basis.

Due to the large amount of unskilled labor required, most toy production now occurs overseas. This is unlikely to change. Toys are now manufactured in a variety of countries, including many in the Pacific Rim. Because of Mexico's proximity to the United States, a U.S./Mexico Free Trade Agreement would encourage more toy production to move from the Pacific Rim to Mexico, thereby supporting economic development in both the United States and Mexico.

Tonka Corporation urges you to support the U. S./Mexico Free Trade Agreement, and urges that toys be given immediate duty-free status under the Agreement. If we can provide you with further information, please do not hesitate to contact Susan J. Kraus at (408) 252-5988.

Susan J. Kraus
Tonka Corporation
10135 McLaren Place
Cupertino, Calif. 95014

**Testimony to the United States House of Representatives
Committee on Ways and Means
Subcommittee on Trade
on Fast Track Approval of the Proposed
Free Trade Agreement with Mexico**

Statement by John H. Hovis, Jr.
General President of the United Electrical,
Radio and Machine Workers of America

The economic integration of Europe and the emergence of so-called "trading blocs" around the world will have broad, long term consequences for this country's position in the world economy. We must prepare ourselves for a future which promises to be significantly different from the past. We believe it is time for a careful, fundamental reassessment of U. S. economic policy, both domestic and international, with an eye on securing our competitiveness in the world economy of the twenty-first century.

Unfortunately, the present Administration appears either unprepared or unwilling to undertake such a reassessment. Instead, it has reacted to the developments in Europe and the rest of the world with panic.

One sign of this panic has been the Administration's ill-advised rush into military involvement in the Persian Gulf. Another has been its peremptory abandonment of the GATT talks. Now comes with its request for "fast track" approval of a Free Trade Agreement with Mexico.

Without question, the world economy is undergoing great change. It is natural that this should produce anxiety in some quarters. In a recent interview, the former Finance Minister of Mexico, Jesus Silva-Herzog, described the panic in Mexico:

> A year ago, everybody in Mexico rejected the idea of a free-trade agreement with the U. S. on grounds of disparity -- in per capita income, size of economy and degree of development. Today ... they see the challenges faced by individual nations as regional economic blocs begin to form in Japan and Asia, Europe, and North America. Not to join with other nations in trade agreements would be to risk marginalization, to remain spectators on the world scene.

The panic in Mexico over free trade is understandable: Mexico is a relatively small, underdeveloped country. But that a similar panic should overtake a nation as wealthy and as powerful as this one is little short of incomprehensible.

The threat to the U. S. is not sudden "marginalization" in the world economy. Rather, the threat is a continued long and steady erosion of our capacity to compete in world markets. And in terms of that threat, a Free Trade Agreement with Mexico -- as it is likely to be constituted at present -- can do considerable harm.

The Effects of an Agreement on the United States and on Mexico

Since the days of David Ricardo, a large body of economic theory has developed to demonstrate that the unfettered exchange of goods and services across national boundaries -- "free trade" -- can have a powerful stimulative effect on the economies at both ends of such exchanges. In other words, under the appropriate conditions, free trade can benefit all the parties involved.

In theory, free trade could stimulate the U. S. economy by opening up Mexico's domestic market to U. S. producers. Unfortunately, Mexico is a country burdened with a radically unequal distribution of wealth and an unemployment/underemployment rate that has approached 40% in recent years. Mexico's capacity to absorb significant increases in U. S. exports is on the whole quite limited.

Of course, Mexico could adopt social and economic policies designed to expand effective aggregate demand. An opposition leader, Cuauhtemoc Cardenas, has called for a free trade agreement accompanied by a Social Charter whose effect would be to stimulate effective demand in Mexico as well as harmonize social, labor, and environmental regulations on both sides of the border. But note that it is the opposition in Mexico that is calling for this. By contrast, the Administration of President Salinas seems committed to the same misguided theory of "trickle down" economics whose consequences at last are apparently being visited upon us. And its record of turning a blind eye both to human rights abuses and electoral fraud on a scale that has become an international scandal do not suggest an Administration intent on creating a vibrant consumer economy.

Furthermore, Mexico's debt burden has had a catastrophic effect on living standards there. In the 1980s -- often referred to as "the lost decade" in much of Latin America -- real wages in Mexico fell by about 60%. Thus, in addition to a major change in Mexico's social and economic policies, a radical reduction in its external debt will be required if the Mexican economy is to expand sufficiently to increase its ability to absorb U. S. exports.

Thus in terms of U. S.interests, a true free trade agreement would include provisions for substantially reducing Mexico's foreign debt and substantially improving the standard of living of the average Mexican worker.

Similar requirements apply to Mexico's interests in true free trade. In theory, free trade could stimulate the Mexican economy by opening up the U. S. domestic market to Mexican producers.

Mexico's initial competitive advantage in the U. S. would be price, due to Mexico's low wage rates. Significantly, countries which got their foothold in international trade through the export of cheap goods -- Japan, South Korea, and Taiwan and others -- changed their export strategy to higher priced, high value-added goods at the first available opportunity. If it wishes to escape being trapped in a marginal, "cheap goods" niche in the U. S. market, Mexico will ultimately have to follow the same path: expand investment in education and research and development and raise the standard of living of its workers. Indeed, Mexico's ultimate competitors in the U. S. market will not be the low-paid workers of Latin America and East Asia, but the higher-paid workers of the U. S., Europe, and Japan.

Unfortunately, financing such social policies requires domestic capital which Mexico does not presently have, primarily as a result of the debt crisis. And note that as long as its current debt burden persists, whatever Mexico earns by gaining better access to U. S. markets will be siphoned off to pay its debts, not to improve its export position. Again, reduction of Mexico's external debt is vital if it is to enjoy the benefits of true free trade.

In the light of all of this, the "free trade" agreement appears to be a misnomer. This suspicion is confirmed by the fact that beginning in 1986, Mexico abandoned its longstanding tradition of protectionism and radically reduced its tariffs -- by as much as 90% on a trade-weighted basis. Mr. Silva-Herzog puts the case quite baldly: "...the main interests of U. S. negotiators will probably not be trade, since Mexico is quite open already, but in removing investment restrictions in order to take advantage of our low labor costs."

The most likely outcome of an investment agreement will be that international capital will flow into Mexico. Normally, one would assume that such capital will flow into Mexico to produce for the Mexican market. But this has already been done. By the early 1970s -- nearly 20 years ago -- U. S. corporations already controlled the following proportions of major industries in Mexico:

Automobiles	57%
Rubber	76%
Mining	54%
Tobacco	100%
Food and Beverages	47%
Machinery	51%
Computers	88%
Chemicals	53%
Pharmaceuticals	86%

Given these levels of penetration by U. S. capital in Mexico, clearly the so-called "free trade" agreement is not just another case of promoting old-fashioned foreign investment. Rather, we believe its purpose will be to encourage U. S. investment in Mexico to create production facilities utilizing low wage Mexican labor as an export platform for the U. S. market.

The model already exists in the Maquiladora Program. Originally set up in 1965 to encourage foreign companies to build plants in Mexico, the program has grown to over 1,600 plants employing nearly 500,000 workers. In some quarters, it is referred to as a "spectacular success."

A maquiladora plant can import components from the U. S. duty free. The components are then assembled and shipped back to the U. S. where an import duty is levied only on the value added by the Mexican assembly operation, not on the full value of the manufactured article.

This arrangement is, of course, a travesty of the idea of free trade. It can be described more accurately as a clever gimmick in international corporate accounting designed to take advantage of low Mexican wage rates. In the last ten years, we have seen enough examples of the devastating effects of such "creative accounting": savings and loan balance sheets and leveraged buyouts being two of the latest examples. The maquiladoras are no exception:

1. The wage rates in the maquiladoras are substantially lower than Mexico's average manufacturing rate of $ .84 an hour.

(The U. S. average manufacturing wage in 1989 was $10.71 an hour.)

2. At present there are over 1,600 maquiladora plants employing about 443,000 workers. About 85% of the plants are U. S.-owned. That represents a direct loss of over 375,000 jobs in the U. S. and probably an equal number lost indirectly through ripple effects. In our own Union, the number of jobs that have been lost directly to the maquiladoras number in the thousands. And we are only one union.

3. Through published reports and the direct experience of our staff and members, we can say that the general working conditions -- health and safety conditions in particular -- are extremely poor in the maquiladoras. Rarely is state-of-the-art production technology employed. And the communities and neighborhoods in which the maquiladora workers live almost universally lack the basic amenities: sewage, running water, adequate housing, public health services -- even paved roads in many cases.

4. By adjusting internal pricing policy, a U. S. owner of a maquiladora can shift the tax burden associated with a maquiladora operation from one country to the other to obtain the most favorable tax treatment. This is, of course, an invitation to a bidding war among governments in both countries to set the most favorable tax terms to the companies.

5. Relative to the entire U. S. economy, the number of companies that have relocated to the maquiladora corridor is small. But the effects have been pervasive. Companies now freely threaten to leave for Mexico when workers demand improvements in compensation or even show resistance to concessions. In every city and town in the U. S., wage rates are lower because of the maquiladoras.

6. In the Southern California furniture industry alone, over 40 plants recently moved to Mexico to escape that region's environmental control regulations. The pressure to relax U. S. regulations is obvious. (In the meantime, the plants, located just across the border, are polluting the atmosphere which then blows back into the U. S.)

The maquiladoras can be adjudged a "spectacular success" only in the light of a single, narrow, special interest: the immense profits that come from the ability to manufacture in a low-wage economy and sell in a high-wage market. Among those who are availing themselves of this success are the following leading maquiladora employers (as of 1986):

Zenith	18,000 workers
General Motors	13,000 (now 20,000)
General Electric	8,000
RCA	6,000 (now part of GE)
A. C. Neilsen	5,500
North American Philips	4,500
American Hospital	3,500

The macroeconomic costs to both societies are vastly greater than the superprofits these corporations gain through their maquiladora operations. Nonetheless, by most accounts the proposed "free trade" agreement will include a huge expansion of the maquiladoras, extending the maquiladora zone over the entire country and giving them full access to selling in Mexico's domestic market. As one Mexican proponent put it, "We won't even be using the word maquiladora in ten years."

The Long Term View

The maquiladoras are a symptom of something much deeper. It is the kind of short term thinking that causes some in this country to gloat that due to the "free trade" agreement with Canada, Canadian companies are relocating to Buffalo to take advantage of the cheaper (!) labor there.

In the long run, for both the United States and Mexico, maquiladora thinking promises not industrial resurgence but industrial decay. In 1986, James M. Kane, General President of our Union at the time, offered this testimony to the House Subcommittee on Economic Stabilization on the issue of maquiladoras:

> The U. S. became a leader in industrial production because we had the highest, not the lowest wages in the world. The pressure of high wage rates forced American firms to use innovation rather than exploitation to reduce costs. In the United States we have traditionally beaten our foreign competitors who always had cheaper labor because technology gave us higher productivity. This productivity allowed us to have both the lowest prices and the highest paid workers. Economists acknowledge that the availability of cheap labor is generally the most potent barrier to technological improvements.

It is time to reassess what we are doing. In the 1990s, the United States will be making its final preparations to participate in the world economy of the twenty-first century. We believe those preparations should be made with a single, overriding goal in mind: the restoration of this country's ability to compete in world markets.

Our Union has been intimately involved in the economic life of the electrical and machine tool industries for over 50 years. In the last decade in particular, we have watched -- from the bottom, from the factory floor -- the effects of a mix of social and economic policies which have wreaked havoc on this country's industrial base.

1. We have learned little from the spectacular success of Japan's Ministry of International Trade and Industry. With one exception, we have ignored the obvious advantages of a federally-supported industrial policy. (In the case of that one exception -- the weapons industry -- the United States is the unchallenged world leader.)

2. The regressive policies of the last twenty years have widened income inequality at an unprecedented rate with little thought given to long-term effects on aggregate demand. So far, we have been spared the consequences of contracting effective demand -- but only at the cost of creating a time bomb in burgeoning consumer debt.

3. On the mistaken notion that attorneys and accountants are the true producers of wealth, we have ignored the needs of technical and engineering education. We have no plan to insure the availability of the human talent needed to design, operate, and maintain the production systems of the twenty-first century.

4. A nation may undertake deficit spending to finance its future. But to use deficits to finance a military buildup of dubious rationale and effectiveness is to squander it -- especially if the infrastructure needed to maintain that nation's economic efficiency is crumbling.

5. The nation's tax and investment policies have done little to encourage investment by our own capital markets in our own productive economy. We are farther than ever from encouraging the patient, long-term investment required to reestablish U. S. dominance in world markets. Instead, our financial policies have encouraged investment in takeovers and leveraged buyouts that merely reshuffle ownership of existing productive capabilities.

6. We have persisted in the belief that the key to competing in world markets is to drive down the wages of our workers -- in spite of all the evidence that wages and competitiveness rise together.

7. The labor movement has been assaulted in the mistaken belief that unions are obstacles to international competitiveness -- in spite of all of the evidence that unions are a constant prod on management to find new ways to increase productivity.

Even in the vague outlines so far presented, we can find no connection between these problems and the Administration's proposed solution of a "free trade" agreement with Mexico.

Therefore, we urge the Congress to support a Resolution of Disapproval with regard to the Administration's request for a fast track approval of its proposed Free Trade Agreement with Mexico.

Statement of Vitro, S.A. and its Subsidiary Companies on the U.S.-Mexico Free Trade Agreement

Before the Committee on Ways and Means, U.S. House of Representatives

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I. INTRODUCTION

This statement is submitted on behalf of Vitro, S.A., of Monterrey, Mexico and its subsidiary companies, to set forth its views on the likely impact of a Free Trade Agreement with Mexico on the float glass, automotive glass, household glassware, and glass container industries in the United States. Vitro, S.A. has evolved from a small, family-owned glass container manufacturer, founded in 1909, into a fully integrated manufacturing group. Through its 85 operating companies, some large, some small, Vitro produces not only float glass, automotive glass, household glassware, and glass containers, but also raw materials, fiber glass, machinery for the production of glass and plastic containers, other related machinery and durable goods, as well as home appliances and luggage. Total sales of Vitro, S.A. operating companies in 1989 were $1.3 billion (excluding the sales of Anchor Glass Container Corporation, which was acquired during that year). Sales of glass products -- float glass, automotive glass, household glassware, and glass containers -- were considerably less than this. The current exports of these companies represent only a very small part of the total U.S. market for float glass, automotive glass, household glassware, and containers. Further, it should be emphasized that the Mexican market remains the focus of Vitro, S.A.'s activities, and accounts for, and will continue to account for, the overwhelming majority of its sales.

Vitro, S.A., for a number of reasons, brings a unique perspective to the Free Trade Agreement and its possible impact on the U.S. industry to the current debate. It is, by virtue of its acquisition of Anchor Glass Container Corporation of Tampa, Florida, both a Mexican and a U.S. manufacturer. Additionally, Vitro, S.A. has been both an importer of Mexican products into the United States and an importer of U.S. products and materials into Mexico.

Despite its many diverse interests, Vitro, S.A. still views itself first and foremost as a glass company. Float glass, automotive glass, fiber glass, household glassware, and glass containers are manufactured by numerous Vitro operating companies. The markets, as well as the industries producing these products, are separate and distinct. This is true in Mexico, in the United States, and throughout the world. Vitro, S.A., in making this submission, wishes to emphasize that any discussion of the impact of a Free Trade Agreement on the United States must analyze each of these sectors of the U.S. glass industry separately. There is no single, monolithic glass industry in the United States or in Mexico which covers float glass, automotive glass, household glassware and glass containers. These markets in the United States are completely separate, each with their own manufacturers and customers with different problems and concerns, and each affected by different factors. A discussion about the impact of a Free Trade Agreement with Mexico with respect to float glass, automotive glass, household glassware and glass container industries will be meaningful only if each of these areas is studied independently. This fact was recognized by the United States International Trade

Commission, in its recent report to the Committee on Ways and Means and Senate Finance Committee on The Likely Impact On The United States Of A Free Trade Agreement With Mexico (USITC Publication 2353, February 1991). The portion of the Commission's Report dealing with "Glass Products" discusses only household glassware. While recognizing the other segments of the glass market, the Commission chose not to focus on these other distinct markets (float glass, glass containers, fiber glass), confirming their non-controversial status in the context of a Free Trade Agreement.

The Commission's Report also confirms that a Free Trade Agreement with Mexico will have very little impact on the U.S. float glass, automotive glass, household glassware and glass container industries. The impact of imports from Mexico on these U.S. industries, even if designated as unconditionally duty free at the time an Agreement enters into effect, will be minimal. This is primarily due to the comparative sizes of the U.S. and Mexican float glass, automotive glass, household glassware, and glass container industries. In all cases, the U.S. industry, whether measured in terms of production, capacity, or sales, dwarfs the Mexican industry. The relatively small production capacity of the Mexican industries in question compared to the overall size of the U.S. markets in question, as well as the existing commitments of these Mexican industries to longtime customers in the Mexican market, essentially ensures that imports from Mexico will play a relatively small role in the U.S. market, and will not adversely affect U.S. producers in these market segments.

It is critical that in gauging the effect of a Free Trade Agreement, the various glass industries (float glass, automotive glass, household glassware, and glass containers) be considered individually. There are, however, a number of observations which can be made relating to a Free Trade Agreement which are equally applicable to all four glass product industries, and are in fact applicable to all industrial sectors.

If past experience is any guide, it can be expected that numerous U.S. industries, either as a whole or by company, will attempt to convince Congress that the elimination of import duties under a Free Trade Agreement, whether immediate, after a phase-out period, or ever, will cause them grievous, if not mortal, harm. While recognizing that there may be some dislocations caused by a Free Trade Agreement to certain industrial sectors-- not only in the United States, but also in Mexico -- we would submit that they will be much less serious than the domestic industries and unions will allege. This belief is premised upon a very simple fact, i.e., that in most industrial sectors, the Mexican industry is simply too small in comparison to the U.S. industry, and its export potential too small in relation to the U.S. market, to have anything but a minor effect on the U.S. industry or market.

It is important to bear in mind that the elimination of U.S. import duties, either immediately or over time, by virtue of a bilateral (or trilateral) Free Trade Agreement, will not result in duty-free treatment being accorded to imports from all countries, or even a block of countries (i.e., GATT contracting parties, CBI countries, GSP beneficiaries), but will be limited to imports from a single country -- Mexico. Further, because only imports from Mexico will be affected by a Free Trade Agreement, any increases in imports from Mexico as a result of the reduction or elimination of import duties need not come at the expense of the U.S. industry, even in cases where the U.S. market is alleged to be mature. Imports from Mexico in many instances -- especially in the case of household glassware -- will come at the expense of other imports with which Mexican products will be able to compete for the first time.

Allegations that duty-free treatment for imports from Mexico will result in a massive surge in imports from Mexico are based upon unfounded fears, not facts. Such allegations presume that the Mexican industry in question has the extra production capacity to generate the increased production necessary to support a "surge" in exports to the United States. What is often overlooked is that, in most instances, the primary market for the Mexican industry is the Mexican market, and this will remain so even with a Free Trade Agreement fully in effect. Even in instances where products are to be designated as immediately unconditionally duty-free under a Free Trade Agreement, any increase in imports from Mexico will be minimal, and most likely, gradual.

II. FLOAT GLASS

A. Condition of the U.S. Industry

All float glass manufactured in the United States is currently produced by five manufacturers: PPG Industries, Inc. ("PPG"), the largest producer of float glass in the United States and the third largest in the world; AFG Industries, Inc. ("AFG"); Ford Glass Division; Guardian Industries; and Libby-Owens Ford ("LOF"). (A new company, U.S. Glass Corp. of Brighton, Michigan, has begun construction of a 400,000 square-foot float glass plant in Pennsylvania which is scheduled to go on stream in 1991. See Glass Industry, August 1990 at 4.) The five companies currently producing float glass in the United States meet approximately 95 percent of the total demand for float glass in the United States, and are filling an increasing percentage of the demand abroad, as well. The remaining 5 percent of the U.S. market is serviced by imports from the rest of the world.

The chart attached hereto as Exhibit 1 sets forth the value of domestic shipments of flat glass, and exports and imports during 1988, 1989 and the first two quarters of 1990. As these statistics show, domestic shipments increased by 3.9 percent between 1988 and 1989. While first and second quarter shipments in 1990 were lower than in 1989, they still reflect a gain over 1988. At the same time, U.S. exports have increased steadily each year, both in absolute terms and as a percentage of total shipments. Total U.S. imports, on the other hand, have declined both absolutely and as a percentage of apparent consumption. These statistics indicate that even as imports are losing ground in the U.S. market, U.S. float glass is gaining ground in foreign markets. The figures underscore the very strong position of the U.S. float glass companies both in the U.S. and abroad, and provide an indication of the struggle which importers face in selling in the U.S. market.

B. The Role of Imports From Mexico in the U.S. Float Glass Market

Imports of float glass play a small but important role in the U.S. float glass market. This is true for both total U.S. imports and imports from Mexico. Total U.S. demand for flat (including float) glass, excluding automotive glass, was 3,452 million sq. ft. in 1989. See Glass Magazine, May 1989 at 95. Imports of unprocessed float glass from Mexico totaled just under 22 million sq. ft. This represents only about 1.0 percent of U.S. demand in 1989. In fact, total U.S. imports of float glass account for less than six percent of the U.S. market. See Exhibit 2. Imports of float glass from Mexico cannot be said to present a threat to U.S. producers.

Mexican imports serve a niche in the market which would otherwise be undersupplied. The U.S. industry produces primarily thin float glass of 6mm or less. This so-called "commodity

glass" comprises at least 90 percent of the market. By contrast, the Mexican industry exports mainly heavy float glass. U.S. production of heavy float glass is minimal, and sporadic. Float glass imported from Mexico, therefore, does not compete with the product which dominates the market, i.e., commodity (thin) float glass, and fills a demand which is not met adequately by U.S. products.

A number of factors make it unforeseeable that Mexican producers will begin to compete with U.S. commodity glass, and have allowed the domestic float glass industry to remain relatively insulated from import competition. These factors include the much greater cost of capital to Mexican float glass producers, which, in this capital-intensive industry, significantly offsets any advantage over U.S. producers derived from the lower cost of labor in Mexico. In fact, given the capital intensity of this industry, the labor cost is such a small factor in the overall price of the glass that it could not give Mexican producers much of an advantage in the U.S. market. It is also important to note that while float glass production requires the use of significant quantities of energy, the costs in Mexico today for energy used in float glass production are not significantly different from such costs in the United States, see Foreign Investment Barriers Or Other Restrictons That Prevent Foreign Capital From Claiming The Benefits Of Foreign Government Programs, ITC Inv. No. 332-268 (August 1989) at 2-1, and do not, therefore, provide any significant advantage to Mexican producers. The Mexican float glass industry also faces significant competitive disadvantages in its efforts to compete in the U.S. market due to higher transportation costs (including a very inadequate road and rail system), a very unsophisticated, and costly, communications system (there are less than one-tenth the number of telephones per capita in Mexico than in the United States), and other, similar infrastructure deficiencies.

Transportation costs for imported float glass, including the Mexican product, are significantly higher than for U.S.-produced float glass. Because of the high cost of transportation, U.S. glass producers have chosen to serve the U.S. market with regional facilities, with float tanks an average of 300 miles from their customers. Mexican producers, by comparison, are located many times this distance from their customers in the United States. Mexican producers must also pay brokers on both sides of the border, stevedoring costs for having the glass driven across the border bridge, the cost of the average two-day delay at the border, as well as the import duties currently imposed on the Mexican product. Consequently, transportation costs are much higher for Mexican producers shipping to the United States, and easily outweigh any benefit the Mexican producers have in terms of lower wage rates.

Most significantly, a comparison of the size of the Mexican float glass industry and the U.S. industry demonstrates very vividly that imports into the United States from Mexico, even when unconditionally duty free, could not pose a threat to the U.S. companies. The capacity and domestic sales of the U.S. industry far exceed the capacity and sales (in Mexico) of the Mexican industry, not to mention its exports to the United States.

It is important to note that the Mexican producers must first satisfy demand in the Mexican market for float glass, which limits both their actual and potential export capacity. New construction in the Mexican market is expected to increase over the next few years, and any increase in capacity of float glass production (which will also replace existing capacity for sheet glass) is very likely to be absorbed by demand within Mexico. Since costs are lower for Mexican producers when they sell in Mexico, they prefer to sell in Mexico if the demand is there.

The foregoing demonstrates that the U.S. float glass industry is not only dominant in the United States, but is also an industry leader worldwide. The Mexican industry is simply dwarfed by comparison. Controlling approximately 95 percent of the U.S. market, the U.S. float glass industry will suffer no adverse effects if a Free Trade Agreement with Mexico is negotiated, and would suffer no adverse effects if Mexican float glass were immediately made unconditionally duty-free.

III. AUTOMOTIVE GLASS

The market for fabricated automotive glass, that is, windshields, which are laminated, and side lites and back lites, which are tempered, is divided into two sectors: the original equipment market (OEM) and the automotive glass replacement (ARG) market. In both cases, imports from Mexico play a very small role in the U.S. market. Moreover, because automotive glass from Mexico is already duty-free under the GSP program, designation of these products as unconditionally duty free at the time the Agreement goes into effect will not create a situation different from that which already exists today, and will not result in significant new exports of Mexican automotive glass to the United States.

A. The Original Equipment ("OE") Market

The OE market is served by the major U.S. automotive glass manufacturers -- PPG, Ford, Chrysler, and LOF -- which produce glass for sale to motor vehicle manufacturers for use as original equipment in new vehicles. The introduction of more energy-efficient glass has allowed automobile designers to incorporate significantly greater amounts of glass into new models, which enhances the appearance of the vehicles and also greatly improves driver visibility. These developments obviously lead to higher sales of glass, since more glass is required for every car built. U.S. companies are the world leaders in the development of these new high-technology glasses.

B. The Automotive Glass ("ARG") Replacement Market

The same U.S. companies which serve the domestic OE market also play a very large role in the ARG market, since they are positioned as the only possible producers of "original equipment" replacements for the automotive glass which they produced for use as original equipment in new vehicles. PPG Industries is, in fact, the acknowledged price leader in the ARG market.

Other U.S. automotive glass producers exist to produce and sell only in the replacement market. These producers typically do not manufacture the raw float glass used in the production of automotive glass. Rather, they purchase float glass and fabricate it into automotive parts. Generally, these secondary automotive glass producers purchase their float glass from the major U.S. float glass producers -- the same companies which are also the major U.S. automotive glass producers (companies such as PPG). Obviously, the first tier automotive glass producers have a distinct advantage over the second tier producers with respect to sales in the replacement market. Automotive glass sold in the replacement market as replacement "original equipment" commands a significant price premium over the generic replacement parts sold by the second tier producers.

Other recent developments in the ARG market have made it even more difficult for the second tier producers to compete in the replacement market with the first tier producers. In the past, the retail end of the replacement market was serviced largely by independent distributors and installers. Sales of replacement glass have increased tremendously over the past

decade, and the market is a very attractive one. Consequently, independent installers are now increasingly being replaced by distributors and installers owned by the automotive glass manufacturers themselves, who are expanding their distribution systems to include the retail level. PPG Industries and LOF now control very significant shares of the ARG market. This trend away from independent installers and toward manufacturer-owned installation outlets favors the continuing ascendancy of larger manufacturers of automotive glass, who can afford to acquire these facilities.

C. The Role Of Mexican Imports In The U.S. Automotive Glass Market

In light of the dominance of the U.S. automotive glass producers, the role of Mexican producers in the U.S. automotive glass market will continue to be limited by their capacities and geographical locations in the United States. According to a July 1990 U.S. International Trade Commission Report ("Conditions of Competition Between U.S. and Mexican Fabricated Automotive Glass in the U.S. Market," ITC Investigation No. 332-286), Mexico's share of total U.S. consumption of fabricated automotive glass has remained both small and stable over the past several years. Mexico's share of the market was 6.0 percent in 1987 and 1988, then fell to 5.8 percent in 1989. Significantly, Mexico lost market share even as imports from other countries gained market share. For example, Canada, which is the largest exporter of automotive glass to the United States, increased its exports to the United States by 1.6 percent in 1989, while imports from Mexico fell by 8.9 percent. ITC Pub. 2289. The chart attached hereto as Exhibit 3 graphically illustrates Mexico's share of the U.S. automotive glass market.

Automotive glass currently enters the United States duty-free from Mexico under the GSP program. There is no need to speculate as to the impact of according duty-free treatment to the product from Mexico under a Free Trade Agreement. Such treatment has been accorded to Mexican automotive glass for many years, with no adverse effect on the U.S. industry. Under these circumstances, the immediate grant of unconditionally duty-free treatment to Mexican automotive glass under a Free Trade Agreement would not cause an increase in Mexican imports.

In any case, a substantial portion of Mexican imports do not compete with automotive glass sold in the open market. Automotive glass imported by Ford Motor Company from its Mexican affiliate for use as original equipment in new Ford vehicles assembled in North America does not compete in the market. Moreover, Ford sources its original equipment automotive glass virtually exclusively from its own glass division or affiliated companies. Almost all production of Ford's Mexican affiliates is imported by Ford for its own use as original equipment. Since no glass part which Ford sources internally is also obtained from outside sources, PPG and other domestic manufacturers are not even vendor candidates with respect to glass parts sourced by Ford from Mexico. To the limited extent that the Mexican affiliates' products are sold to other U.S. auto makers as original equipment, or in the automotive replacement glass market, such sales are made in the U.S. market by Ford. In fact, Vitro Flex, a joint venture company in Mexico between a Vitro, S.A. subsidiary and Ford, has no sales department or sales force; it exists and operates as an internal Ford production facility.

Finally, much of the Mexican automotive glass which is not imported by Ford from its own affiliates is imported for sale in the ARG market. Mexican automotive glass sold in the U.S. replacement market does not compete directly with replacement glass produced by PPG or any other U.S. producer of original

equipment automotive glass. Automotive replacement glass produced by OE manufacturers commands a significant price premium due to a general consumer preference for original equipment parts when replacement glass is necessary.

In sum, making permanent the duty-free treatment currently accorded by the United States to Mexican automotive glass would not adversely impact the U.S. industry.

IV. HOUSEHOLD GLASSWARE

U.S. production of household glassware is dominated by four world-class competitors: Corning Incorporated, Anchor Hocking Glass Company (a division of the Newell Company), Libbey Glass, and Indiana Glass Company. These companies produce primarily machine-made glassware. A variety of smaller companies produce handmade specialty items, but the bulk of production in the U.S. originates with the large companies. See USITC Report on the Special Andean GSP Review (USITC Pub. 2289, June 1990).

Although imports generally do play a significant role in the U.S. household glassware market, Mexican imports taken alone play only a very minor role in that market. In 1989, Mexico exported glassware valued at $21.1 million to the United States. According to U.S. Census Bureau data, in 1989, total U.S. imports of household glassware were valued at $513 million, and domestic shipments were valued at $1.38 billion. Mexico's exports of glassware to the United States gave that country a 1.1 percent share of the U.S. market, and a 4.1 percent share of the import market. As the U.S. International Trade Commission noted in its report to Congress on the impact of the U.S.-Mexico Free Trade Agreement, Mexico's share of the market represents "a negligible portion of U.S. production." Inv. 332-297, USITC Pub. 2353 (February 1991) at 4-32. The Commission's report therefore refutes claims made repeatedly by the domestic household glassware industry that imports from Mexico have been a major cause of decline in the U.S. industry.

It is also important to reiterate that household glassware is not "import sensitive". The GSP law (Section 503(c) of the Trade Act of 1974, 19 U.S.C. § 2463(c)), provides only that articles in the enumerated "categories of import sensitive articles" may not be designated as GSP-eligible by the President. One of these catagories encompasses "import sensitive semi-manufactured and manufactured glass products". The plain language of this section establishes that only glass articles found to be import sensitive are ineligible for GSP eligibility. As other articles were specifically excluded from coverage in their entirety, e.g. textiles, watches, and footwear, glassware would similarly have been excluded had it all been considered import sensitive. Congress has not, therefore, found household glassware to be import sensitive.

Mexico's share of the U.S. market is clearly too small to cause any injury to the domestic household glassware companies. As explained in more detail in the accompanying submission to the Trade Subcommittee of the House Ways and Means Committee by Vitrocrisa Cristaleria and Crisa Corporation, the U.S. household glassware industry has not been injured by Mexican imports in the past, and will not be injured in the future. We would further note that U.S. household glassware producers have taken advantage of opportunities now available in the Mexican market, and have begun to establish a significant presence in the Mexican market. There is no reason to exclude glassware from a Free Trade Agreement, and, given the extremely high tariffs presently imposed by the United States on certain household glassware (up to 38 percent), very good reasons exist to include these articles in any Agreement.

V. GLASS CONTAINERS

Glass containers are currently enjoying a revival in popularity, as consumers become increasingly concerned with the recyclability of packaging. In 1989, U.S. shipments of glass containers grew for the first time since 1986, reaching 285 million gross, and are expected to rise by another 0.8 percent for 1990. In 1989, five major bottlers increased their use of glass for 16-ounce bottles after dramatic increases in resin prices in 1988 made use of plastic less profitable. The conversion back to glass, increases in sales of glass beer and food containers, and the deceleration of the move to plastic bottling in the liquor industry all contributed to the increased shipments of glass containers in 1989.

The glass container industry is expected to grow at an average constant dollar rate of 1 percent annually between 1990 and 1994. However, increasing environmental (and legislative) concerns over plastic containers are likely to make glass containers increasingly attractive to consumers because they can be more efficiently recycled. This, of course, would benefit the glass container industry. See Glass Industry, January 1990 at 8.

Imports play a very small role in the U.S. market, accounting for only approximately 4 percent of U.S. apparent consumption. See U.S. Department of Commerce Report M32G (90)-6 (June 1990). Imports from Mexico make up about 25 percent of total U.S. imports, or about 1 percent of U.S. apparent consumption. There is no reason to expect any increase in imports from Mexico should glass containers be designated as unconditionally duty free under a Free Trade Agreement, inasmuch as this would not change the tariff treatment to which glass containers are currently subject. All glass containers entering the United States from Mexico today are either already unconditionally duty free, or GSP eligible. Although already duty-free, glass containers from Mexico play a relatively minor role of in the U.S. import market, as illustrated by the graph attached hereto as Exhibit 4. Consequently, the U.S. container industry is very unlikely to be adversely affected by a Free Trade Agreement with Mexico, and those glass containers which are not currently unconditionally duty free should be made so at the time of implementation of a Free Trade Agreement.

V. CONCLUSION

There is no single monlithic glass industry in the United States. The float glass, automotive glass, household glassware and glass container industries are all distinct sectors of the economy, with different companies involved in each, and with each responding to a different set of variables. A Free Trade Agreement would not, therefore, affect these industries in the same way or to the same extent, and the impact of an Agreement should be determined seperately for each. These products all play a very small role in the U.S. market. Moreover, due to the relative sizes of the U.S. and Mexican glass industries, the Mexican companies are not in the position to harm the domestic industries. Therefore, we would urge that float glass, automotive glass, household glassware and glass containers from Mexico be designated as unconditionally duty free at the time of the implementation of a Free Trade Agreement between the United States and Mexico, or, at a minimum, be accorded accelerated duty reductions.

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EXHIBIT 1

VALUE OF SHIPMENTS, EXPORTS AND IMPORTS OF FLAT GLASS
1988 to 1990
(Thousands of Dollars)

Year and Quarter	Manufacturers' Shipments (f.o.b. plant)	Exports of Domestic Merchandise (value at port)	% Exports To Manufacturers' Shipments	Imports for Consumption (value at port)	Apparent Consumption	% Imports To Apparent Consumption	Mexican Imports*	% Mexican Imports To Apparent Consumption*
1990								
Second quarter	373,350	78,937	21.1	15,569	309,982	5.0	4,344	1.4
First Quarter	357,810	73,717	20.6	11,728	295,821	4.0	4,218	1.4
1989								
TOTAL	1,543,242	250,731	16.2	74,960	1,367,471	5.5	14,348	1.0
Fourth Quarter	370,859	64,805	17.3	16,637	322,691	5.2	3,605	1.1
Third Quarter	383,313	61,976	16.2	18,950	340,287	5.6	4,045	1.2
Second Quarter	389,443	65,189	16.7	17,896	342,230	5.2	4,281	1.3
First Quarter	400,427	59,641	14.9	21,447	362,263	5.9	2,418	0.7
1988								
TOTAL	1,484,949	282,617	13.6	80,241	1,362,573	5.9	9,431	0.7
Fourth Quarter	383,612	50,714	13.2	19,702	352,600	5.6	2,743	0.8
Third Quarter	380,269	54,843	14.4	21,143	346,569	6.1	2,278	0.7
Second Quarter	369,275	51,432	13.9	19,679	337,522	5.8	2,100	0.6
First Quarter	351,793	45,628	13.0	19,717	325,882	6.1	2,312	0.7

Source: U.S. Department of Commerce Current Industrial Report MQ32A
Flat Glass, Second Quarter 1990 (October 1990)

*Source: U.S. Department of Commerce IM146.

EXHIBIT 2

ROLE OF IMPORTS OF MEXICAN FLOAT GLASS IN U.S. MARKET - 1989

Total U.S. Apparent Consumption: $ 1,367,471,000

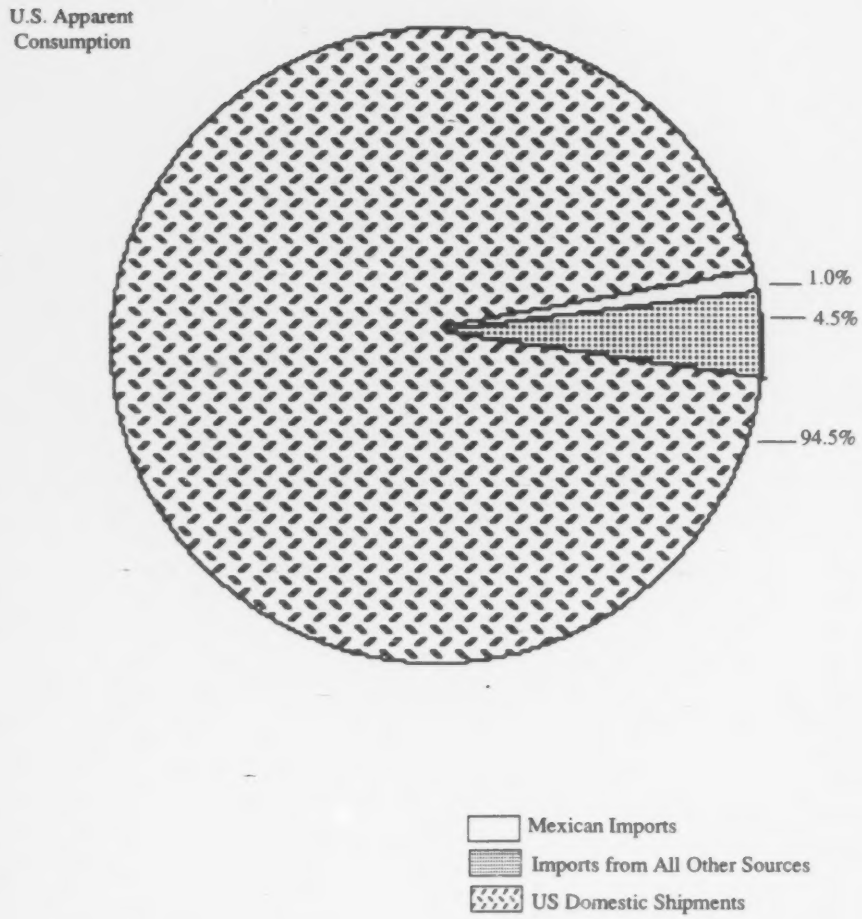

EXHIBIT 3

ROLE OF IMPORTS OF MEXICAN AUTOMOTIVE GLASS IN U.S. MARKET - 1989

Total U.S. Apparent Consumption: $ 1,695,190,000

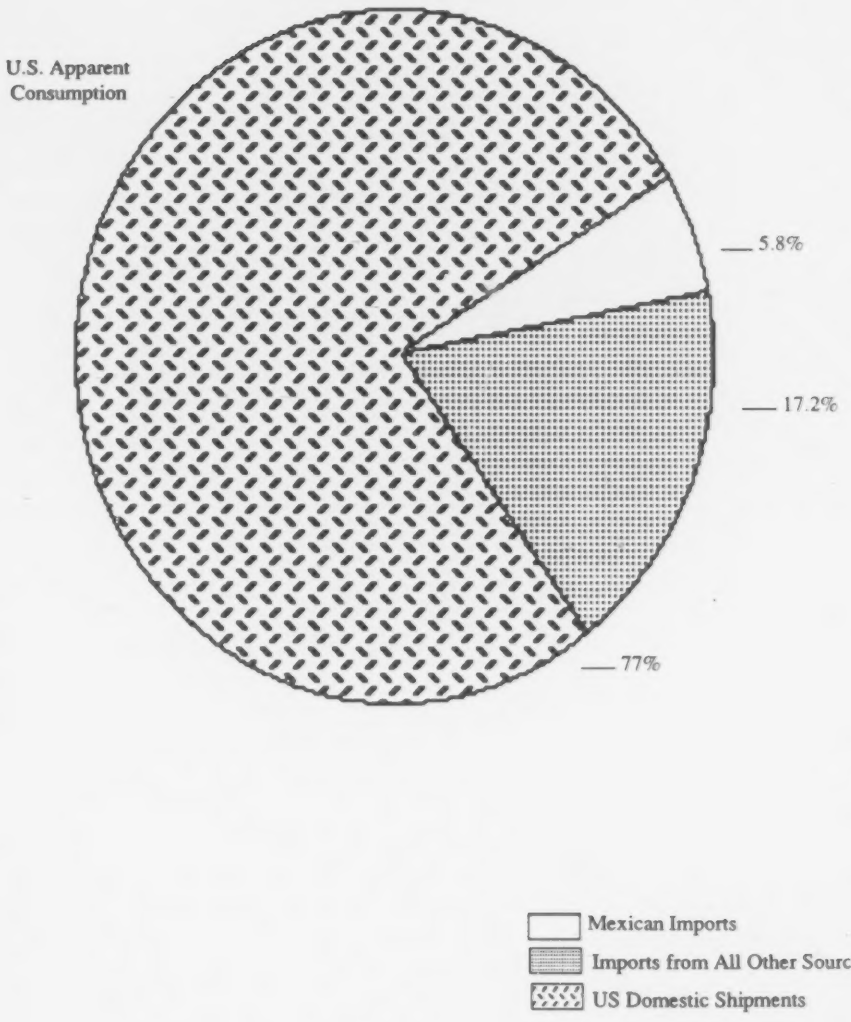

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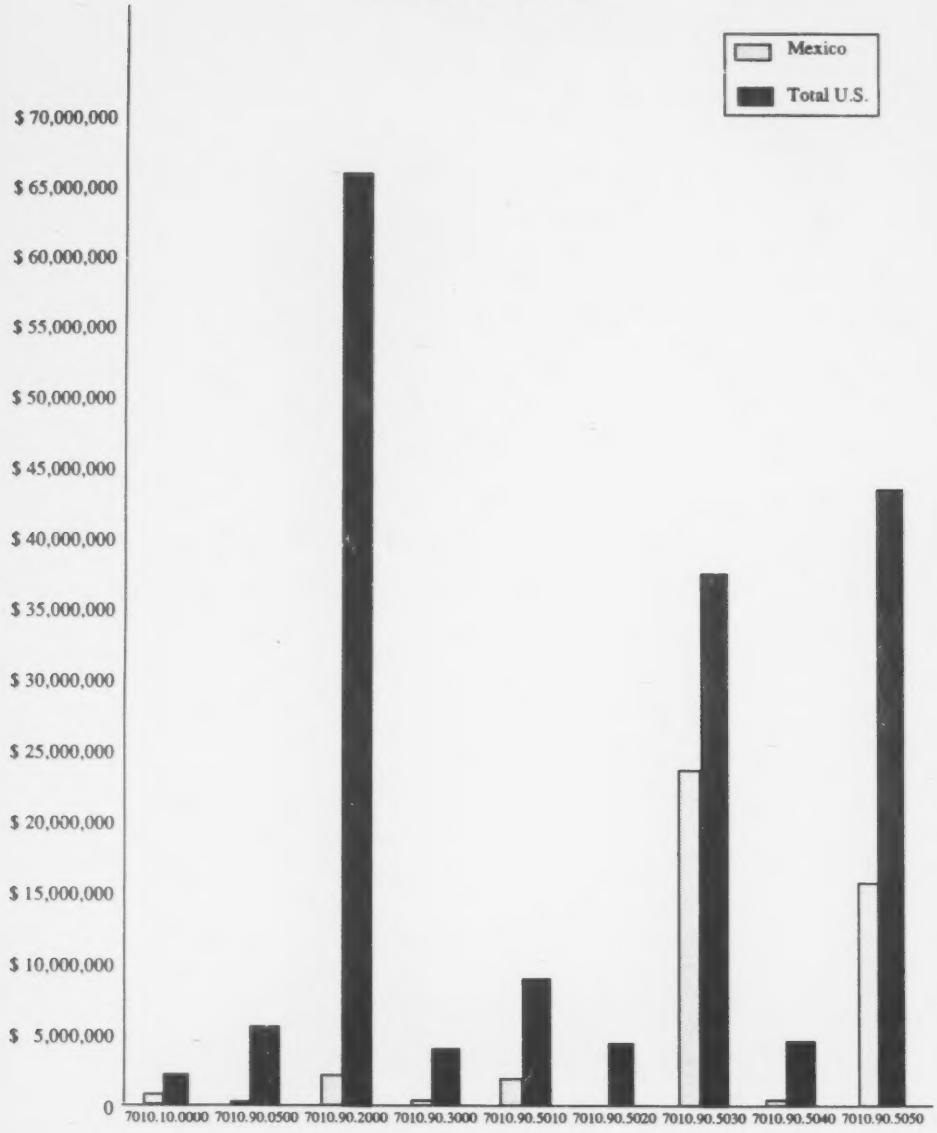
EXHIBIT 4

IMPORTS OF GLASS CONTAINERS UNDER HTS HEADING 7010
January - December, 1989



CGP003.12/4/90

Statement of Vitrocrisa Cristaleria, S.A. de C.V. and Crisa Corporation on the U.S.-Mexico Free Trade Agreement

Before the Committee on Ways and Means, U.S. House of Representatives

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Introduction

The following comments present the views of Vitrocrisa Cristaleria, S.A. de C.V. of Monterrey, Mexico, and Crisa Corporation of Plano, Texas on the Free Trade Agreement to be negotiated between the United States and Mexico. Vitrocrisa Cristaleria is a Mexican manufacturer of household glassware. Crisa Corporation is an importer of household glassware from Mexico. Vitrocrisa Cristaleria and Crisa Corporation submit that a Free Trade Agreement would not be detrimental to the household glassware industry in the United States.

The household glassware industry produces a vast array of products for the home ranging from glass cooking ware to decorative items. The major companies in the U.S. glassware industry are Corning Incorporated, Anchor Hocking Glass Company (a division of the Newell Company), Libbey Glass, and Indiana Glass Company. These companies, all world-class competitors, produce a large variety of machine-made glassware, including drinking glasses, storage jars, floral pieces, and specialty items. See Glass Industry, July 1989 at 32. A variety of smaller companies produce handmade specialty items, but the bulk of production in the U.S. originates with the large companies. See USITC Report on the Special Andean GSP Review (USITC Pub. 2289, June 1990).

Mexican household glassware plays a very small role in the U.S. Market.

Total imports of household glassware into the United States do play a significant role in the U.S. glassware market, but the same cannot be said for imports of household glassware from Mexico. Domestic shipments of glassware increased from $1.36 billion in 1988 to $1.38 billion in 1989. Indeed, during the decade of the 1980s, apparent U.S. consumption of glassware articles classified under HTS heading 7013 increased 33.6 percent. While total U.S. imports of household glassware increased from $413.8 million in 1988 to $513.4 million in 1989, the share of the U.S. market accounted for by imports grew less than one-half of one percent, according to U.S. Commerce Department data. U.S. Bureau of the Census, Current Industrial Report MA32E (September 1990); U.S. Bureau of the Census, IMI46. These data show that imports, while increasing, are doing so in the context of a slightly growing market, and are increasing along with this growing market. It is also interesting to note that U.S. exports of glassware have steadily increased over the last five years. Between 1988 and 1989, U.S. exports increased from $66.8 million to $85.7 million, an increase of 28 percent.

It is critical to remember that total import figures and market share do not reflect Mexico's share of the glassware market. In 1989, Mexico exported glassware valued at $21.1 million to the United States, giving that country a 1.9 percent share of the U.S. market, and a 4.1 percent share of the import

market.* The table attached as Exhibit 1 sets forth the value of imports from Mexico under each of the household glassware tariff provisions (HTS heading 7013), and also the value of total U.S. imports for each provision. These figures, as well as the Report of the U.S. International Trade Commission to the House Ways and Means Committee and Senate Finance Committee on The Likely Impact On The United States Of A Free Trade Agreement With Mexico, USITC Pub. 2353 (February 1991), demonstrate that Mexico plays a very minor role in the import market for glassware generally, as well as in the import market for most individual glassware product categories. The table attached hereto as Exhibit 2 further illustrates, graphically, the minor role which Mexican imports play just within the import market for household glassware, which in turn highlights the even lesser role of these imports in the U.S. marketplace as a whole.

On the other hand, imports (most of which come from the United States) play a significant, and rapidly increasing, role in the Mexican market for household glassware. Imports today account for over 20 percent of the Mexican market for these products. U.S. producers have, therefore, clearly made significant headway in penetrating the Mexican market.

In its Report on the Free Trade Agreement, the Commission acknowledges the very small role Mexico plays in the import market in the United States. In fact, Mexico's share of the market is described by the Commission as representing "a negligible portion of U.S. production." Id. at 4-32. Given this finding, the allegations made by the U.S. household glassware industry that imports from Mexico have been a major cause of decline in the U.S. industry is simply incorrect. The domestic industry is not in decline, and imports from Mexico are virtually meaningless.

Also in its report, the Commission found that the U.S. household glassware industry had "experienced considerable restructuring during the 1980s." The restructured industry which has emerged is dominated by four world-class producers -- Corning, Anchor-Hocking (Newell), Libbey Glass, and Indiana Glass -- which compete not only against imports, but also directly against each other and the smaller glassware companies in the U.S. market. In this restructured market, dominated by world-class producers, the continued presence of extremely high import duties (up to 38 percent) is no longer needed, and cannot be justified (especially in the context of a Free Trade Agreement).

Household glassware is not import sensitive.

The domestic household glassware industry has also on many occasions claimed that Congress has found the glass industry to be "import sensitive". As Vitrocrisa and Crisa Corporation have repeatedly pointed out, the U.S. glassware industry has not beendesignated as "import sensitive" by Congress or the President. The claims of the domestic industry are apparently based on a section of the GSP law (Section 503(c) of the Trade Act of 1974, 19 U.S.C. § 2463(c)), which provides only that articles in the enumerated "categories of import sensitive

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* Contrary to allegations made by the U.S. glass industry, Mexican imports do not make up 14 percent of all imports under HTS subheading 7013, as the official import statistics of the U.S. Department of Commerce clearly show.

articles" may not be designated as GSP-eligible by the President. One of these catagories encompasses "import sensitive semi-manufactured and manufactured glass products". The plain language of this section establishes that only glass articles found to be import sensitive are ineligible for GSP eligibility. Had Congress believed all glassware to be import sensitive, it would simply have made all glassware ineligible for inclusion in the GSP program, which it did in the case of textiles, watches, footwear, and other items. Since Congress did not do this, it is clear that Congress did not consider all glassware to be import sensitive, and intended any determination of import sensitivity to be made on a product-by-product basis. Indeed, the Commission, in its February 1991 Report on the Free Trade Agreement, found that most imports of glass products into the United States enter duty free under the GSP program. The repeated efforts of the domestic glassware industry to convince its audience that the law states otherwise reflects a deliberate attempt to misconstrue the clear language of the statute.

The fact that all glassware is not import sensitive is further underscored by the inclusion of glass tableware in the U.S.-Canada Free Trade Agreement. In fact, the tariffs on many glassware products are being eliminated within five years, namely those imported under HTS subheadings 7013.21.00, 7013.31.00, 7013.32.00, and 7013.91.00. Several of these items which will become duty-free by January 1, 1993 carry very high MFN rates of duty. The schedule of staged reductions for glass tableware is attached hereto as Exhibit 3. This indicates the importance of looking at glassware on a line-item by line-item basis, and in rejecting as unfounded the allegation of the U.S. glassware industry that all glassware is "import sensitive." Moreover, the Canadian experience also makes clear that the mere fact that a product continues to carry a high tariff does not prevent its consideration for duty reductions in a Free Trade Agreement. Clearly each product must be considered individually, as must the impact in the market of imports from Mexico for each product. Mexico should certainly receive no less favorable consideration in this respect than did Canada four years ago.

A Free Trade Agreement will not create a flood of imports from Mexico.

Contrary to the conclusion drawn by the Commission in its Report, a Free Trade Agreement would not necessarily lead to any significant increase in imports of household glassware. The argument that a reduction in tariffs would lead to increased imports has been made in the past with respect to products of other glass industries and has not proven to be accurate. For example, at the time glass containers became unconditionally duty-free, the domestic glassware container industry argued that the removal of tariffs would cause a flood of imports. This anticipated "flood" never occurred. The domestic industry also argued in the 1989 GSP Annual Product Review that the addition of heavy float glass to the list of GSP-eligible articles would cause a significant increase in imports. Census Bureau import statistics for the first eleven months of 1990 show a decrease in the value of imports of heavy float glass from Mexico, which became GSP eligible in 1990, from $1,717,669 in 1989 to $1,526,590 in 1990. These figures refute the contention that granting duty-free status to a product will lead to an increase in imports, and highlight the fact that even with duty-free treatment, the many competitive disadvantages faced by Mexican producers of glassware (and other glass producers) -- such as the extremely high cost of transportation, and the distance from customers, in a very service-oriented industry) -- will always limit the presence of product from Mexico in the U.S. market.

Members of the domestic household glassware industry have repeatedly claimed that the experiences of the U.S.-Israel Free Trade Agreement and the Caribbean Basin Economic Recovery Act demonstrate that imports will increase under a Free Trade Agreement with Mexico. References to import increases under these particular arrangements are very misleading. In both cases, glassware imports prior to the effective date of the agreements were virtually nonexistant. Israel and CBI countries (specifically Trinidad and Tobago) began to export household glassware only after the respective arrangements became effective. In 1990, the value of imports from Trinidad and Tobago, the primary CBI exporter of glass tableware to the United States, was $449,015. In 1984, there were no exports. Consequently, there was, of course, a tremendous percentage increase in overall exports of these glass products. However, $449,015 in exports over six years can hardly be described as a "surge". Israel's exports increased 241 percent between 1984 and 1990 -- from $25,450 to $86,871. Obviously, any increase will be dramatic in terms of a percentage increment when the starting point is very small. In the case of the CBI and the U.S.-Israel Free Trade Agreement, there were no "surges" in imports of household glassware. Also notable is the fact that imports from Trinidad and Tobago decreased 26.3 percent in 1989 from 1988, and that imports from Israel decreased 66.2 percent in 1989 from 1987 (34.6 percent in 1988 from 1987; 48.2 percent in 1989 from 1988).

Moreover, it is very important to distinguish between the exercise of negotiating a Free Trade Agreement with Mexico and that of negotiating tariff reductions in the context of the Uruguay Round or providing benefits under the GSP program. In granting tariff concessions under the GATT, the United States agrees to reduce tariffs with regard to all of its MFN trading partners. In the context of the GSP program, tariff concessions are offered to all Beneficiary Developing Countries. The negotiation of a Free Trade Agreement with Mexico, however, provides the unique opportunity to reduce tariffs solely as they apply to a single trading partner. Recent increases in imports from Eastern Europe are therefore completely irrelevant in the context of calculating potential import increases under a Free Trade Agreement with Mexico, as such an agreement will not change the tariff treatment of articles imported from any country other than Mexico. Consequently, the tariff reductions being contemplated here will have a much smaller impact on the U.S. industry than would tariff reductions granted on an MFN basis, or under the GSP program. We would respectfully submit that in the case of a Free Trade Agreement with Mexico, unconditional duty-free treatment, even if accorded to glassware articles immediately, would have little impact on the U.S. industry. This conclusion was also reached by the Commission in its recent Report to the Congress on the likely impact of a Free Trade Agreement on U.S. industries.

Mexican producers do not have any significant competitive advantage over U.S. producers.

The U.S. domestic household glassware industry has repeatedly claimed that Mexican producers enjoy competitive advantages in terms of lower wage rates, lower energy costs, and more relaxed environmental and safety standards. In fact, Mexican producers do not enjoy any significant competitive advantage over U.S. producers. The lower wage rates, and allegedly lesser (but now increasingly stringent) environmental and safety regulations, only offset in part the many competitive disadvantages facing the Mexican producers.

With respect to energy costs, it is alleged that the price of natural gas is slightly lower in Mexico than in the United States. Such a price differential, which was significant in the early 1980s, has been rapidly narrowing, and is no longer of any significance. See Foreign Investment Barriers or Other Restrictions that Prevent Foreign Capital from Claiming the Benefits of Foreign Government Programs, ITC Inv. No. 332-268 (August 1989) at 2-1. Mexican household glass producers cannot be said to have any significant advantage over U.S. producers in terms of energy costs, and Vitrocrisa believes that it is now paying more for energy than U.S. glassware manufacturers.

Finally, we note that in Mexico, significant efforts are now being made to implement environmental controls. Vitrocrisa, like other responsible industrial companies, is concerned about the continuing deterioration of the environment, and is spending significant sums of money to reduce environmental contamination. Vitrocrisa is in the process of installing pollution control equipment for its furnaces. This equipment will cost the company very substantial sums of money. Vitrocrisa has already installed a dust collector system in mixing rooms, acoustic installations on compressors, hydrochloric acid neutralizing systems for residual water, and a dust collector system in the oven loading areas. Vitrocrisa has established a department charged exclusively with responsibility for environmental concerns, especially those relating to pollution. In addition, as noted above, Vitrocrisa uses natural gas (at times supplemented by elecricity) in its glass operations, which is essentially pollution free. This approach should be compared with that of U.S. glassware companies, many of whom use fuel oil, which creates significant pollution.

While the U.S. glassware industry attempts to portray itself at a significant disadvantage in its competition with imports from Mexico, the truth of the matter is that Mexican household glassware producers face many more competitive disadvantages in their competition with U.S. producers in the U.S. market than vice versa. Being located in a developing country, Mexican manufacturers do not benefit from the sophisticated transportation and communication infrastructure available to U.S. producers. This imposes substantial additional costs on Mexican producers which U.S. producers do not face. Additionally, the Mexican market is much smaller than the U.S. market -- the U.S. market is approximately 15 times larger than the Mexican market. This enables U.S. producers to run much larger production lines, enabling them to take advantage of economies of scale, and to offer a much greater variety of products to their customers than Mexican producers are able to offer.

More importantly, investment to maintain and upgrade manufacturing facilities, and for continued research and development, comes at a much higher cost in Mexico than in the United States. Currently, the cost of money in real terms in Mexico is 15.52 percent, while in the United States the same cost is 3.74 percent. This makes capital development much more expensive in Mexico.

This higher cost of money also imposes significant burdens on Mexican producers because inventory turnover is much slower in Mexico than in the U.S. market, which imposes further financial costs. This is compounded by the fact that the payment terms in Mexico are much more lenient than in the United States. Payment terms of 50-60 days are the norm, and it is not uncommon to extend terms of payment up to 120 days (and in some cases, 6 months) for customers. In the United States, by comparison, U.S. household glassware companies can require that letters of credit be posted for payment at the time of delivery.

Conclusion

Given the extremely small share of the U.S. market currently accounted for by imports of Mexican household glassware, the relatively small size and limited production capacity of the Mexican industry, and the Mexican industry's longstanding and continued commitments to its customers in the Mexican market, we respectfully submit that the elimination, or reduction, of import duties on household glassware from Mexico under a Free Trade Agreement would not significantly affect the U.S. household glassware industry. Lower duty rates, and eventual duty-free treatment, will only help in part to offset the many competitive disadvantages faced by Mexican household glassware producers in the U.S. market.

We respectfully submit that the overall impact of a Free Trade Agreement on the household glassware industry in the United States will be, in the words of the Commission, will be "negligible." Suggestions by the U.S. industry that household glassware should be excluded from any Agreement negotiated should be rejected out of hand. The contemplated Free Trade Agreement is to be comprehensive, and cover all product sectors, especially those, such as household glassware, where the overall effect of such an Agreement will be "negligible."

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EXHIBIT 1

Value Of Imports Of Glassware Under HTS Heading 7013
January - December, 1989
($US)

HTS #	Mexico	Total U.S.	Mexican % of Total Imports
7013.I0.1000	$ 0	$ 3,621,699	0.0
7013.10.5000	0	148,170	0.0
7013.21.1000	2,613	1,390,374	0.2
7013.21.2000	38,601	32,049,312	0.1
7013.21.3000	17,687	7,481,469	0.2
7013.21.5000	7,283	15,095,937	0.02
7013.29.0500	260,316	8,092,113	3.2
7013.29.1000	2,035,719	5,564,747	36.6
7013.29.2000	3,645,797	40,050,717	9.1
7013.29.3000	97,321	651,025	15.0
7013.29.4000	164,699	1,650,839	10.0
7013.29.5000	2,800	5,101,447	0.05
7013.29.6000	62,147	3,529,304	1.8
7013.31.1000	1,160	1,188,581	0.1
7013.31.2000	6,633	7,141,022	0.09
7013.31.3000	0	7,259,669	0.0
7013.31.5000	15,321	80,560,193	0.02
7013.32.1000	0	8,173,937	0.0
7013.32.2000	252,680	5,043,245	5.0
7013.32.3000	14,197	5,398,751	0.3
7013.32.4000	11,264	1,904,606	0.6
7013.39.1000	1,452,934	15,495,195	9.4
7013.39.2000	2,330,923	22,860,207	10.2
7013.39.3000	860,892	2,614,825	32.9
7013.39.4000	114,748	1,269,844	9.0
7013.39.5000	273,246	9,848,422	2.8
7013.39.6000	90,225	14,844,521	0.6
7013.91.1000	5,506	4,432,938	0.1
7013.91.2000	55,390	11,351,419	0.5
7013.91.3000	0	8,767,111	0.0
7013.91.5000	80,841	75,754,010	0.1
7013.99.1000	440,092	2,913,987	15.1
7013.99.2000	6,674	2,370,457	0.3
7013.99.3000	121,078	4,867,631	2.5
7013.99.3500	2,745,762	6,664,888	41.2
7013.99.4000	909,503	3,185,777	28.5
7013.99.5000	3,121,593	23,444,658	13.3
7013.99.6000	693,176	2,344,319	29.6
7013.99.7000	350,951	2,570,050	13.7
7013.99.8000	271,244	6,568,855	4.1
7013.99.9000	613,527	20,172,340	3.0
7013.00.0000	$21,174,543	$513,438,611	4.1

Source: U.S. Department of Commerce IM 146.

EXHIBIT 2

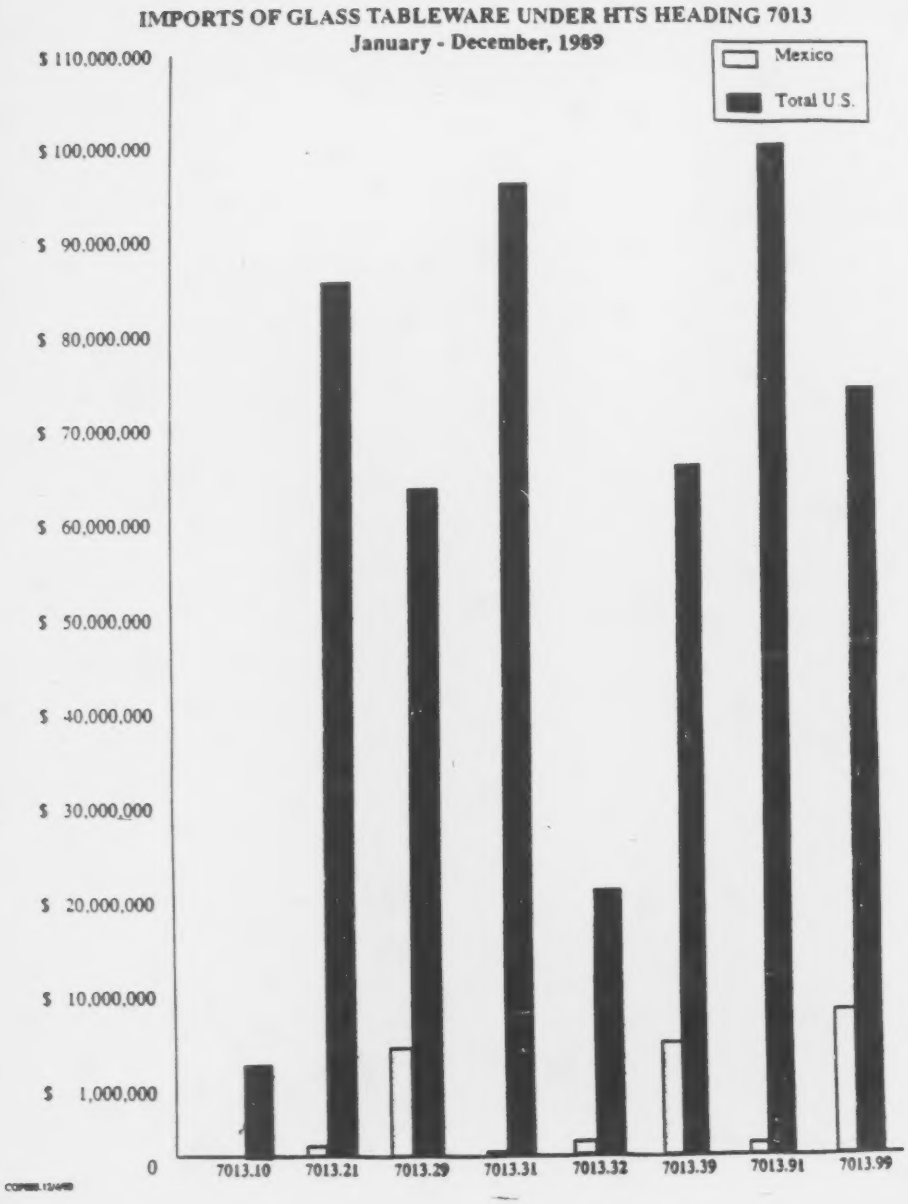
IMPORTS OF GLASS TABLEWARE UNDER HTS HEADING 7013
January - December, 1989
Mexico
Total U.S.
$ 110,000,000
$ 100,000,000
$ 90,000,000
$ 80,000,000
$ 70,000,000
$ 60,000,000
$ 50,000,000
$ 40,000,000
$ 30,000,000
$ 20,000,000
$ 10,000,000
$ 1,000,000
0
7013.10
7013.21
7013.29
7013.31
7013.32
7013.39
7013.91
7013.99

EXHIBIT 3

DUTY REDUCTION SCHEDULES

HTS #	CURRENT MFN DUTY	CURRENT CANADIAN DUTY	CANADIAN PHASE-OUT PERIOD	ISRAELI PHASE-OUT PERIOD†
GLASS TABLEWARE				
7013.10.1000♦	6.9%	0.0%	Immediate	Immediate
7013.10.5000	26.0%	0.0%	Immediate	Immediate
*7013.21.1000	20.0%	8.0%	5YR.	Immediate
*7013.21.2000	14.0%	5.6%	5YR.	Immediate
*7013.21.3000	10.5%	4.2%	5YR.	5YR.
*7013.21.5000	6.0%	2.4%	5YR.	Immediate
7013.29.0500	12.5%	8.7%	10YR.	5YR.
7013.29.1000	38.0%	26.6%	10YR.	Immediate
7013.29.2000	30.0%	21.0%	10YR.	Immediate
7013.29.3000	15.0%	10.5%	10YR.	Immediate
7013.29.4000	7.2%	5.0%	10YR.	Immediate
7013.29.5000	15.0%	10.5%	10YR.	Immediate
7013.29.6000	7.2%	5.0%	10YR.	Immediate
*7013.31.1000	20.0%	8.0%	5YR.	Immediate
*7013.31.2000	14.0%	5.4%	5YR.	Immediate
*7013.31.3000	10.5%	4.2%	5YR.	5YR.
*7013.31.5000	6.0%	2.4%	5YR.	Immediate
7013.32.1000	12.5%	5.0%	5YR.	5YR.
7013.32.2000	30.0%	12.0%	5YR.	Immediate
7013.32.3000	15.0%	6.0%	5YR.	Immediate

† All listed tariff provisions are currently duty free under the U.S.-Israel Free Trade Agreement.

♦ Item is eligible under Generalized System of Preferences (GSP).

* Item is under consideration for accelerated removal of duty.

EXHIBIT 3

DUTY REDUCTION SCHEDULE

ITEM #	CURRENT MFN DUTY	CURRENT CANADIAN DUTY	CANADIAN PHASE-OUT PERIOD	ISRAELI PHASE-OUT PERIOD†
GLASS TABLEWARE (con't.)				
7013.32.4000	7.2%	2.8%	5YR.	Immediate
*7013.39.1000	12.5%	8.7%	10YR.	5YR.
7013.39.2000	30.0%	21.0%	10YR.	Immediate
7013.39.3000	15.0%	10.5%	10YR.	Immediate
7013.39.4000	7.2%	5.0%	10YR.	Immediate
7013.39.5000	15.0%	10.5%	10YR.	Immediate
7013.39.6000	7.2%	5.0%	10YR.	Immediate
*7013.91.1000	20.0%	8.0%	5YR.	Immediate
*7013.91.2000	14.0%	5.6%	5YR.	Immediate
*7013.91.3000	10.5%	4.2%	5YR.	5YR.
*7013.91.5000	6.0%	2.4%	5YR.	Immediate
7013.99.1000	20.0%	14.0%	10YR.	Immediate
7013.99.2000	12.5%	8.7%	10YR.	5YR.
7013.99.3000‡	9.0%	6.3%	10YR.	5YR.
7013.99.3500‡	6.6%	4.6%	10YR.	Immediate
7013.99.4000	38.0%	26.6%	10YR.	Immediate
7013.99.5000	30.0%	21.0%	10YR.	Immediate
7013.99.6000	15.0%	10.5%	10YR.	Immediate
7013.99.7000	7.2%	5.0%	10YR.	Immediate
7013.99.8000	15.0%	10.5%	10YR.	Immediate
7013.99.9000	7.2%	5.0%	10YR.	Immediate

† All listed tariff provisions are currently duty free under the U.S.-Israel Free Trade Agreement.

‡ Item is eligible under Generalized System of Preferences (GSP).

* Item is under consideration for accelerated removal of duty.

STATEMENT OF THE
WORK GLOVE MANUFACTURERS ASSOCIATION

ON THE PROSPECTS OF A U.S.-MEXICO FTA

TO THE SUBCOMMITTEE ON TRADE, HOUSE WAYS AND MEANS COMMITTEE

FEBRUARY 25, 1991

I. INTRODUCTION

The Work Glove Manufacturers Association (WGMA) is a trade association of U.S. producers of work gloves of all types. Its membership represents the majority of domestic producers of work gloves, nearly thirty producer companies and twenty-eight supplier firms. WGMA member companies manufacture work gloves made of fabric, leather, coated fabric, rubber, plastic, and fabric-supported rubber and plastic for hand and product protection and infection control. These products have been developed for industrial, consumer and medical applications.

WGMA members have legitimate concerns about an FTA with Mexico. Domestic producers of work gloves believe that the FTA will stimulate additional U.S. imports of work gloves from Mexico; they also believe there will be no corresponding improvement in access to the Mexican market for U.S.-made work gloves under the FTA. WGMA members are also concerned about the problem of transshipment through Mexico of Asian-origin work gloves. Moreover, WGMA members have reason to believe that Asian work glove producers will add new manufacturing capacity in Mexico to reap the benefits of the FTA; this new production capacity will augment currently existing capacity. It will not be a replacement of such capacity as some have suggested.

II. THE WORK GLOVE INDUSTRY IS IMPORT-SENSITIVE

The domestic work glove industry's ability to weather the impact of additional imports from low-wage, developing countries has reached its limit. This is a fact acknowledged by Congress and the Executive Branch.

The import sensitivity of the domestic work glove industry has repeatedly been recognized by Congress, which specifically excluded work gloves from certain U.S. trade preference programs. Most work glove imports are exempt from duty-free treatment when imported from beneficiary countries of the Generalized System of Preferences (GSP). Similarly, work gloves were among a short list of products that were excluded by name from duty-free treatment under the Caribbean Basin Initiative.

The import sensitivity of this industry has also been recognized by the Executive Branch, which accorded work gloves the longest phase-out period (10 years) under the U.S.-Canada Free Trade Area. In addition, numerous quota actions on textile gloves have been taken pursuant to the Multifiber Arrangement (MFA).

The treatment of work gloves in these programs demonstrates that additional incentives for foreign countries -- particularly low-wage, developing countries -- to export work gloves to the U.S. must be avoided.

III. U.S. IMPORTS OF WORK GLOVES AND OTHER INDICATORS

The treatment of work gloves in the GSP, CBI, and MFA programs is well founded, considering the dramatic increases in work glove imports that have occurred over the years. Looking at a time span that covers the period between 1979 and 1989, all economic indicators show a pattern of decline for this industry:

-- Total imports of work gloves grew by more than 2,000 percent between 1979 and 1989.

-- Domestic shipments of work gloves and mittens, excluding rubber, fell by more than 30 percent during this period.

-- U.S. employment declined by 27 percent since 1982.

These trends continued unabated in 1990.

The fact that domestic producers have lost sales to imports is clear. In addition, as imports have been rising, their average unit values have been falling. This puts severe downward price pressures on domestically-produced products, and seriously erodes domestic producers' ability to sustain current levels of production. The net effect of these import pressures has been declines in U.S. production, employment, and the industrial base.

IV. USITC FINDS THAT U.S. IMPORTS OF MEXICAN APPAREL WOULD INCREASE UNDER A U.S.-MEXICO FTA WITHOUT CORRESPONDING GAINS FOR U.S. PRODUCERS IN THE MEXICAN MARKET

As the Committee is well aware, earlier this month the U.S. International Trade Commission (ITC) issued a report on The Likely Impact of a Free Trade Agreement with Mexico, which found that there would be a slight overall net economic benefit to the U.S. economy from a U.S.-Mexico FTA; however, there were some sectors that would clearly lose under the proposed FTA. Apparel was one of them. The Report found that:

> It is likely that U.S. imports of textiles and apparel from Mexico would continue to increase significantly under an FTA. The elimination of U.S. duties and existing quotas would encourage additional investment in Mexican export-oriented production. This investment could come from U.S. firms wanting to increase their competitive position in the U.S. market, and from third-country producers whose current exports to the United States are limited by quota/and or who may be facing rising production costs at home.

With respect to the prospect of improved access to the Mexican market for U.S. apparel producers the Report found:

> U.S. exports of finished apparel to Mexico are relatively insignificant. They are not expected to gain a large share of the Mexican market, because of Mexico's labor-cost advantage and because of the limited incomes of most Mexican consumers.

Thus, under the proposed FTA, U.S. work glove producers will face the prospect of rapidly growing imports from yet another low-wage, developing country. These imports will be encouraged by (1) preferential duty rates under the FTA, and

(2) the relocation to Mexico of third-country producers, who will reap the benefits of the FTA. In the case of work gloves, these third-country producers will be the large Asian work glove suppliers who already have the vast majority of the U.S. work glove market.

Will there be any offsetting gains for domestic work glove producers under the FTA? If the ITC report is accurate, it is unlikely.

V. CONCLUSION

WGMA members are very worried about the prospects of an FTA with Mexico. We are not optimistic that an FTA between two countries so far apart on the developmental scale is feasible or practical. WGMA is also concerned that market access will be a one-way proposition under the FTA: Mexico has a long history of non-tariff barriers, which impede access to the Mexican market. WGMA is not confident that such practices can be "negotiated" away under an FTA.

A good example of such a practice was the sudden appearance recently of new and onerous labelling requirements for U.S. textile products, which were alleged to be "administrative" in nature, but caused major disruptions and delays for U.S. producers trying to get product into Mexico. Such actions are not the hallmark of a country ready to enter into a "free-trade" agreement.

WGMA asks the Congress to proceed with caution on the FTA. There is no reason why the U.S. must rush into an agreement with Mexico before having a full appreciation of the effects of such an arrangement on American firms and workers. Moreover, the U.S.-Mexico FTA will clearly set the pattern for other FTAs with Central and Latin American countries.

In conclusion, Congress must be fully aware that its approval of the FTA negotiations may ultimately lead to a much-diminished ability on the part of U.S. producers to continue to make work gloves and many other manufactured goods in the United States once an FTA with Mexico is implemented.